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SAVERS' SURPLUS AND THE INTEREST RATE

SUMMARY

I. The Problem: Is interest determined by use (demand) or by a cost of saving? — Savers' surplus, 3. — Its discussion by economists, 4. — II. The sources of savings, 10. — Analysis of income distribution in United States, 11. — Dominant savings by the rich, 14. — III. The psychology of saving, 17. — The poor, 18. — The middle classes, 19. — The wealthy, 21. — Automatic costless savings, 23. — The marginal analysis inapplicable, 24. — IV. Corporate surpluses and bank-credit loan funds, their great amounts, 27. — How far costless, 28. — Bank credit loan funds, 29. — Conclusion, 31.

I. The Problem

Cleared of scholastic refinement, all interest theories on the demand side, are essentially and fundamentally "use" theories. Capital (however conceived and defined) is regarded as productive in *some* sense of the term. At one end it is concrete produced goods aidant in the technological processes of production; at the other end it is intangible assets and loan funds (whether of money "saved" from present consumption or of bank credit created *ad hoc* to business or speculative demands) which, either with or without technological capital goods, play so large a part in the business of profit-getting.[1] The rate of interest, so far as deter-

[1] Recent writers show a noteworthy tendency to realism in insisting upon the rôle played by intangible assets and loan credit funds. See, for example, Veblen, The Theory

mined by demand for capital goods or loan funds, depends upon the profitableness of their use.

On the supply side, interest theories fall into two groups. According to one, capital supply is kept up automatically; capital reproduces itself (or "virtually" so) and the supply of it is directed or distributed among the various uses and industries by its owners in such a way that its productivity tends to be everywhere the same. Only additions of new capital to the previously existing total are according to this view conceded to be the result of saving, and the rate of interest is influenced by the supply of capital only as supply affects productivity, under some law of factoral proportion. According to the other group of theories, broadly speaking, both the upkeep and the interest of capital involve saving and depend upon the interest rate, which is governed by the psychology of the saver — by the several rates at which different individuals subjectively discount future income and at which they will refrain from present spending of various portions of their current income.

Most of the emphasis in modern discussions has been placed on the supply side. In general, the productivity, usefulness, or desirability of capital is taken as evident. With the demand side of the problem the present article is only incidentally concerned. Our purpose has to do with the motives to saving in relation to capital supply and interest rates, in so far as saving is a basis of capital formation. Davenport and Moulton have made out a good case to support the contention that a large part of our capital loan fund is supplied without great saving on anybody's part, simply by mortgaging industrial or

of Business Enterprise, chap. v, and "On the Nature of Capital," Quarterly Journal of Economics, August and November, 1908; Davenport, Economics of Enterprise, chaps. xviii and xix; Moulton, "Commercial Banking and Capital Formation," Journal of Political Economy, May, June, July, and November, 1918; Robertson, The Economics of Progress, pp. 153-157.

mercantile product beforehand through the instrumentality of loan funds created by the banks on a slender cash reserve. So far as this is true, a certain, and probably a large, portion of our real capital equipment is produced without the incurrence of any cost of abstinence, saving, or waiting. It is in this sense costless capital.[1] Reserving to a later section a brief discussion of the bearing of this newer conception of capital formation, and restricting our attention to that part of capital which does rest back upon actual saving of a dollar for every dollar's worth of concrete capital goods created, the central question before us is: Does all this saving involve real cost, and if not, how large is the proportion of costless saving? Furthermore, how great is the differential between low-cost savings and the reward for saving as (supposedly) fixed by the marginally determined interest rate? In short, how much of the interest burden is payment for actual costs, how much is unearned income in the form of savers' surplus or savers' "rent"? The question is important, since the interest charge, even on productive loans and not including war debt and loans for predatory purposes, is an enormous burden on society. If it can be reduced without seriously diminishing the flow of investment funds, economy, both individual and social, would recommend its reduction.

With the exception of specific productivity theories and possibly Kleene's neo-residual-claimant theory, all interest theories, so far as the writer is aware, recognize cost and choice as factors entering into the determination of the supply of capital. Even Clark, despite his conviction that capital is a continuous immortal some-

[1] It might be argued that the use of bank credit for productive purposes involves opportunity cost, since the bank loans could be used for the purchase of immediate consumption goods. It is evident, however, that there is no such opportunity and hence no such opportunity cost, since the banks will not, and cannot safely, create loan funds for such purposes.

what, automatically reproducing itself, is compelled to admit that *additions* to capital — "cumulative saving," to use Fetter's term — involve choice between investment and present spending, and hence cost or sacrifice.[1] In line, also, with the general concept of margins, the equilibrium of demand and supply which is thought to determine the interest rate is commonly supposed to be struck at that amount of saving at which the sacrifice of the marginal saver just equals the utility of his marginally saved units to the least eager (that is marginal) actual borrower of capital. We are not here concerned with the pointed objection to this doctrine, that the sacrifice to the marginal saver and the utility to the marginal borrower are incommensurable quantities.[2] The marginal method of analysis is implicit, if not explicit, in most modern discussions of the interest rate. Just as we have to pay for agricultural produce its cost on marginal land, so (the argument runs) we have to pay for capital its cost to the marginal saver. And just as the owners of superior, intra-marginal land secure a surplus — land rent — so the intra-marginal (and in a sense superior) savers secure savers' rent.

Among present day writers there may be noted an increasing tendency to recognize the existence, if not the importance, of this intra-marginal surplus.[3] Hob-

[1] Essentials of Economic Theory, chap. xx, "The Law of Accumulation of Capital." Altho Clark seems studiously to avoid the terms "cost" and "sacrifice," the principle of opportunity cost is implicit in the whole chapter.

[2] Cf. Davenport, Economics of Enterprise, p. 386.

[3] Probably the earliest serious extended discussion of savers' surplus by an American economist is C. W. Mixter's suggestive article. "The Theory of Savers' Rent and Some of Its Applications," Quarterly Journal of Economics, April, 1899, pp. 245–269. This article broke new ground of which, however, there does not seem to have been much subsequent cultivation, a circumstance due perhaps to the implicit faith of American economists in the validity and sufficiency of the theory of marginal costs and products. As the author himself accepted without serious question classical and "marginal" concepts, his conclusions do not correspond to those reached in the present discussion. Some years earlier, Professor Carver in his "The Place of Abstinence in the Theory of Interest" (Quarterly Journal of Economics, October, 1893, pp. 40–61) brought out the existence, but not the social significance, of savers' surplus.

son [1] devotes considerable space to "costless savings" but his discussion is marred by certain untenable hedonistic assumptions, and his concept of cost is open to question. Recognition of the surplus, and implied suggestion that it is large in proportion to total savings, may be found in the writings of Gonner,[2] Davenport, Moulton, and David Friday. Kleene in his exceptionally able little book, *Profit and Wages,* alludes to the surplus and hints at its importance.[3] Marshall, in the fourth edition of his *Principles,* mentions savers' surplus, along with "workers' surplus," in a note on the wages fund theory, but he says that "a study of the relations in which the different kinds of surpluses stand to one another, and to the national income . . . has little practical bearing. . . ." [4] In the fifth edition the whole discussion is relegated to an appendix, indicating that its importance had still further declined in Marshall's estimation.[5] Search may be made through the standard English and American texts and treatises, however, without revealing, with one exception, any writer who, accepting the marginal method of analysis, more than mentions savers' surplus; most do not even do so much.

The exception is Taussig, who gives express and serious attention to savers' surplus,[6] and to the question how low the interest rate may be expected to go in the future.

It will be remembered that his discounted marginal productivity theory of wages requires as premise, if it is to avoid circular reasoning, the independent determina-

[1] Work and Wealth, chap. viii.

[2] Interest and Saving, pp. 75–79.

[3] Profits and Wages, p. 57.

[4] Principles of Economics, 4th ed., pp. 624, 625

[5] Ibid., 5th ed., Appendix E, pp. 830–832.

[6] Ibid., vol. ii, pp. 23 ff. Also pp. 494–496 on the relation of savers' surplus to progressive taxation of funded incomes.

tion of the interest rate. This determination he finds in the classical and Böhm-Bawerkian notion of "advances to laborers" and in the marginal sacrifice of the consequently necessary waiting or abstinence. That there is a marginal abstinence-reward rate, below which interest will never fall for any great length of time he considers indicated, if not proved, by the remarkable evenness of the interest rate since the middle of the eighteenth century.

The pertinent passages are the following:

> The steadiness of the rate of interest through so long a period of striking changes both in the uses and in the accumulation of capital would seem to point to a steadying cause, a marginal supply price to which the rate of return on the whole has adjusted itself. . . . The marginal supply price may sink in the course of the next twenty or fifty years to some such rate as two per cent. But the experience of the last few generations makes a greater decline improbable.[1]
>
> If there is a regulator of interest in the way of a general or marginal time-preference — a minimum return necessary to induce saving and accumulation on a large scale — then and then only have we an independent determination of interest, and so a tenable theory of wages as the result of an operation of discount. The chief evidence which we have of such a fundamental supply price has been found in the steadiness of the rate of interest during the modern period.[2]

The emphasis on marginal savings is typical and significant. But is it well placed? If the amount of saving at the margin should happen to be small, the margin would not, after all, be all-important in the fixation of the interest rate. How great is the total of marginal savings? From the historical steadiness of the interest rate, Taussig argues that "it is perhaps not an unjustified inference that there is a large volume of savings at the margin."[3] He drafts his capital supply curve in form to indicate that a heavy percentage of savings would not be forthcoming if the rate were re-

[1] Vol. ii, pp. 26, 27. [2] Ibid., p. 201. [3] Ibid., p. 26.

duced ever so little. He is thus in position not so much to minimize the size and importance of savers' surplus as to imply that any attempt to reduce savers' surplus by reducing the interest rate would be to court disaster by impairing the capital fund. His argument stands or falls according to the validity of his historical evidence and its interpretation. That it is a conclusive proof, he probably would not hold; that he may have overlooked important considerations is pointed out below.

In his diagrammatic illustration Taussig so places the demand curve that it intersects the savings-cost curve only after the latter has flattened out to a nearly horizontal position, at P′ (Fig. 1).

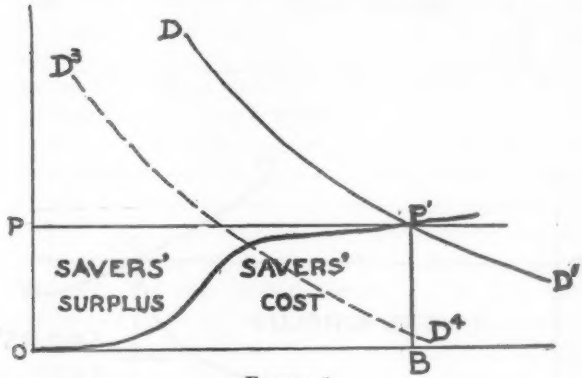

FIGURE 1

If asked why the curve might not just as logically be drawn at D^3 D^4, crossing the cost curve where it is inelastic, he would doubtless answer with the historical argument. Yet it is difficult to see that evidence is offered for the belief in a large volume of marginal savings, giving warrant for flattening out the cost curve as it approaches the margin P′.

Conceivably, the cost curve of saving could take, at extremes, either a form which would make the amount of savers' surplus comparatively small, or one which would make that surplus the chief ingredient of the interest charge. The first extreme is illustrated in Fig. 2, the second in Fig. 3.

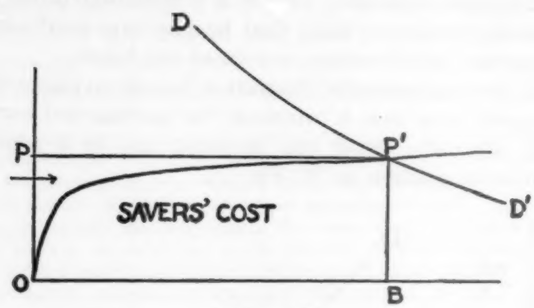

FIGURE 2

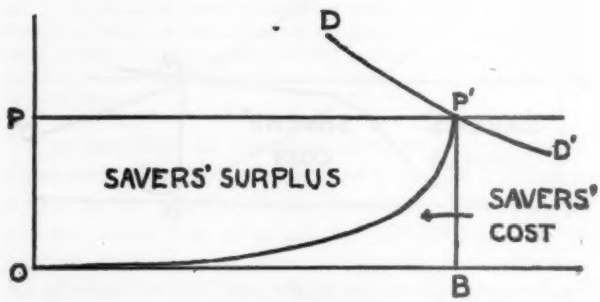

FIGURE 3

In the first case it is evident that even a slight reduction of the interest rate below BP′ would result in a very great reduction in saving. In the second case the rate could be cut in half without material reduction in savings — at least until the reduction of the income of

interest recipients had lasted long enough to alter materially the distribution of income classes, and so altered the shape of the savings-cost curve.

Which of these curves more nearly represents reality as to surplus and sacrifice ? There are good reasons for thinking that the elastic curve in Fig. 3 much more nearly represents actual facts than does either the curve in Fig. 2 or Taussig's curve (Fig. 1) — in other words, that the amount of marginal savings is relatively insignificant compared to intra-marginal savings.

Intra-marginal savings belong to two classes, so far as cost or sacrifice is concerned: those which cost no sacrifice and which would be saved even were there no interest, and those the sacrifice cost of which is less than the interest received, and which would be saved at a rate lower than the current market rate. These two classes of savings determine the amount of saver's surplus, for any given interest rate.

The problem of the relative amounts of marginal and intra-marginal savings, and with it the larger question of the amount of unearned interest charge which society is called upon to pay and which it might conceivably find ways of avoiding, is one to which no exact answer can be given. Yet that certain important clues have been overlooked by the conventional marginal analysis seems clear. A scientific answer to the problem must involve a real attempt to analyze the time-differential psychology of different income classes, to determine statistically where the bulk of savings comes from, to examine the reasons why the interest rate during the nineteenth century was sustained at a point above 2 per cent, and to inquire into the importance of corporate surpluses and bank credit loan funds.

II. The Sources of Savings

The first point of departure in determining the amount and importance of intra-marginal savings and savers' surplus is to find what relative proportion of the total annual cash savings come from the different income classes. This is a purely objective matter, involving no question of psychology upon which hedonist and non-hedonist can quarrel. The only difficulty is to get the facts. Unfortunately, economic theorists, under the spell of marginalism and the "logic of differences," and more or less unconsciously following the apologetics trail laid down by classical writers, have been too preoccupied with trains of deductive logic to devote endeavor to the collection of statistics bearing on the sources of savings. Did every individual keep accurate accounts and were there a central audit of such accounts, the problem of fact would be solved. It would then be possible to divide the population into income classes, and opposite each one to set its total and its per capita savings. We should then have an accurate index of the amounts saved by the ultra-wealthy, the wealthy, the well-to-do, and the poor; and it would also be possible to gauge the amount of savings derived from funded and unfunded, or "property" and "service," incomes. In the absence of any such social bookkeeping we must, with Polonius, "by indirections find directions out." It might be possible to derive estimates from annual cash bank deposits (were such deposits separately accounted), from life insurance premiums, investments in non-speculative securities of all sorts, money sent abroad by immigrants, savings invested in real estate and farm improvements, corporate surpluses not otherwise accounted for. But no

more could be done than to take cash investments only, made out of this year's savings, and to arrange the statistics by income classes; and the calculations and estimates would at best be complicated and the validity of the results problematical. The only attempt at this sort of thing that has come to the writer's notice is David Friday's estimate of the amount and sources of savings in the United States during the war.[1] But while Friday is ingenious in discovering sources of information, and somewhat daring in their use, he makes no attempt to distribute savings among the various income classes.

Fortunately we do not have to wait for the intricate investigation above suggested. Semi-direct indication of the probable derivation of savings is afforded by the statistics of income published by the Commissioner of Internal Revenue,[2] which not only throw definite light on the probable source of savings by income classes but give ample basis for inference with regard to the probable extent of intra-marginal savings and the amount of savers' surplus.

No extended application of these statistics to the problem in hand will here be attempted, but certain significant and salient facts, derived from the Commissioner's first three summarizing tables,[3] may be pointed out.

The total number of individuals making returns was 3,472,890. Of these, 1,640,758, or 47.25 per cent, had incomes of from \$1000 to \$2000 each, aggregating \$2,461,137,000. This was only 18.04 per cent of the total income returns of \$13,652,383,207. Unfortunately there is no separate tabulation of the amount of tax paid

[1] "The War and the Supply of Capital," American Economic Review, Supplement, March, 1919, pp. 79–95.

[2] Statistics of Income. Compiled from the returns for 1917, Washington, 1919.

[3] Op. cit., pp. 5, 6.

by this lowest income class. Its contribution cannot be appreciable, for the next class, 838,707 individuals with incomes of from $2000 to $3000 and aggregate income of $2,064,977,000, paid only 1.34 per cent of the total tax.

Taking, somewhat arbitrarily, $10,000 as the income dividing line between poverty and affluence, we find that 95.35 per cent of the individuals making returns had incomes of less than $10,000 a year. This 95.35 per cent received 62.05 per cent of the total income, but paid only 10.58 per cent of the tax.[1]

Conversely, the 4.65 per cent (161,996 individuals) who had incomes of $10,000 or over, aggregating $5,182,896,000 or 37.95 per cent of the total income, paid 89.42 per cent of the tax. Roughly speaking, 5 per cent of the persons making returns received 40 per cent of the income and paid nine-tenths of the tax.

At the top end of the scale, the 6664 persons with incomes of $100,000 or over constituted only one-fifth of one (0.21) per cent of the number making returns; but their income of $1,606,516,000 constituted 11.76 per cent of the total *and they paid over one-half — 53.25 per cent — of the tax.*

The significance of these facts should be apparent. The principle of progressive taxation has gained practically universal acceptance, presumably because it is now recognized as coming nearer to the criterion ability to pay than does proportional taxation. And "ability to pay" is only a sort of objective measure of the subjective "equal sacrifice." That the income tax should take from individuals at rates varying, on the average, from one half of 1 per cent on incomes between $2000 and $2500 to 34.5 per cent on incomes of $5,000,000 and over will not appeal to anyone as unjust to the higher

[1] Figures for taxes paid include in all cases, income tax, surtax, and excess profits tax.

income ranks, if we are to accept either "ability to pay" or "equal sacrifice" as a criterion of assessment. On the contrary, it may be, for instance, that $11.37 out of an income of $2000 or $2500 represents much more really a sacrifice of present wants than does $11,385.11 out of an income of $90,000 to $100,000, or $4,937,-731.25 out of incomes "$5,000,000 and over" averaging $14,310,000 each. The $11.37 taken from the poor man represents a pair of shoes needed but not purchased. The $11,385 taken from the $90,000 income represents at most the sacrifice of some marginal luxury, or the conversion to public purposes of money which, along with an additional part of the $90,000, would have been saved and invested for private profit.

Take a few further facts from these tables. The aggregate of incomes under $10,000 is $8,469,487,000. Taxes paid out of these incomes total $71,447,000; leaving a balance of net income of $8,398,049,000, or approximately $2550 per capita. Incomes of $10,000 and over aggregate $5,182,896,000, with tax deduction of $603,802,000, leaving a net income of $4,579,094,000. This divided equally among the 161,996 persons in this group would give an average net income of considerably over $28,000 per capita. The average tax paid from incomes under $10,000 was less than $22; from incomes over $10,000 it was approximately $3725. In other words the large-income group paid per capita 169 times as much tax as the small-income group. And this, it must be remembered, under tax rates which took from the very largest incomes only 34 to 44 per cent. The reader not convinced by these citations that the distribution of income is such that there is an enormous mass of costless and automatic saving may derive further food for thought by taking some set income figures for each class, which may be regarded as satis-

fying all sane desires, non-satisfaction of which would involve felt sacrifice, and calculating the excess of income, in each class, above these living standards. The writer is deterred from such calculation both by space considerations and by lack of intimate knowledge of just how much a man with an income of say $750,000 would have to spend to satisfy all his consumption desires. Leaving out of account the desire for power and prestige, and the fun of getting the money, and also all philanthropical gifts (which are more akin to saving), it is clear that the residue would in any case be enormous. And the residue, whatever it is, constitutes a vast fund, the greater portion of which is doubtless the source of the bulk of intra-marginal, and indeed costless, savings.

It may be objected that the income tax returns take no account of incomes under $1000 (practically under $2000). It is probably safe to say that there are over 30,000,000 adult income receivers who do not figure in the income tax tables. Their per capita income was probably not above $750 a year, if it was that much, and their total income not above $22,500,000,000 — approximately one-third the national income in 1917, estimated by Friday at $65,000,000,000.[1] Now while persons with incomes between $1000 and $2000 doubtless save an appreciable amount, a small portion of which may eventually become a part of the permanent loan fund, it stands to reason that little or no effective saving is to be looked for from incomes below $1000. J. A. Hobson[2] estimates that about $\frac{3}{20}$ of the annual income of England is, in normal times, saved and reinvested. Applying this ratio to the $65,000,000,000 income of the American people, savings in 1917, had it

1 "The Taxable Income of the United States," Journal of Political Economy, December, 1918, p. 954.

2 Work and Wealth, p. 31.

been a normal peace-time year, would have been \$9,750,000,000. Friday[1] puts our savings in 1915 at \$9,000,000,000. We may guess at \$10,000,000,000 as normal savings in 1917 (against the \$18,000,000,000 which Friday estimates actually to have been saved under war stimulus and prosperity). Hobson,[2] again, thinks that in England the working classes may save as much as one-tenth of the country's annual savings. Applying the same rate to the United States, the savings of the 30,000,000 individuals who make no income tax returns would normally have aggregated, in 1917, \$1,000,000,000. This would have been somewhat less than $\frac{1}{20}$ of their total income as estimated above. It does not seem reasonable to assume that the savings of the poor can bear a greater proportion than this to their income. If these admittedly and assuredly long range estimates be accepted provisionally, and if we should assume that all of the \$1,000,000,000 estimated savings of the poor actually became a part of the loan fund, we should arrive at the conclusion that *at least* one-tenth of the total annual contribution to the loan fund must consist of money saved by marginal savers at high sacrifice. Then the question would remain whether so small a fraction of the savings supply as one-tenth is sufficient to dominate the market and fix the interest rate, as the marginal analysis requires. Perhaps it would be, were it under unified control, to be advanced or withdrawn from the loan market as a lump sum or in large amounts. But such is not the case.

It must be pointed out, also, that no matter how large the aggregate savings of the poor may be, they are not to any great extent *effective savings.* The main channel by which savings of the poor become a part of the loan fund

[1] "The War and the Supply of Capital," American Economic Review, Supplement, March, 1919, p. 80.

[2] Work and Wealth, p. 105.

is probably through the savings banks. In 1916, savings bank deposits aggregated $5,581,270,728. Savings deposits proper aggregated only $4,979,460,089, or a per capita average of only $458 for the 10,868,657 depositors.[1] There is apparently no ready way of determining the turnover of these deposits — that is, the amount of cash deposited in a given year, or the net deposit for a given year — but it is evident that the annual contribution of the savings banks to the loan fund is a mere trickle. Only a very small percentage of the estimated annual savings of $1,000,000,000 which we have attributed to the poor ever gets into the capital loan fund. Most of these savings go for rainy days, funeral expenses, payments on homes, etc. — in other words for deferred consumption. Our conclusion, therefore, is in agreement with Taussig's[2] implication that the poor save little. It seems exceedingly difficult to suppose that there is any great volume of effective savings coming from the poor — the savings which constitute what may be called the extensive margin of capital supply.

If marginal savers do not contribute an important part of the loan fund, however, it may be that there is nevertheless a large volume of savings made at the *intensive* margin by intra-marginal savers — that is, at the line of doubt and felt sacrifice between present spending and effective thrift. Analysis of the psychology of saving in the different income classes, however, throws grave doubt upon the actuality of any such margin as an effective determinant of the interest rate.

[1] Report of the Comptroller of the Currency, 1916, vol. ii, pp. 874, 883.

[2] Principles of Economics, vol. ii, p. 42. Cf. Clark, Essentials of Economic Theory, p. 347.

III. The Psychology of Saving

We must now glance briefly at certain aspects of the psychology of saving. To the degree that saving is the result of hedonistic motivation, the amount of effective savings is of course influenced by the interest rate. But in what way? The conventional view is that every reduction of the rate, however slight, cuts off some marginal savers, and reduces the amount saved by others. Opposed to this is Clark's[1] contention that reduction of the rate stimulates saving. Neither Clark's view nor the more commonly accepted one is adequate, however, for they both tend to draw attention from the huge volume of intra-marginal savings, to ignore the differing motivation to saving in different classes, and to overestimate the responsiveness of saving to variations in the interest rate. Behavioristic psychology with its intensive study of instinct and habit will in time doubtless help to throw light on the motivation of saving in the various classes. It will almost surely come to the support of those economists who have, in increasing numbers, questioned the validity and sufficiency of the simple hedonistic theories of interest and saving. But some hedonistic element will doubtless remain. We shall not entirely discard time preference, abstinence, and impatience, as elements in the interest problem. Putting the matter roughly, we may say that certain aspects of production — the starting of a new project and bringing it to the position of a "going concern" — involve a roundabout process; this in turn involves "waiting" —

[1] Essentials of Economic Theory, chap. xx. See also Kleene, Profits and Wages, pp. 64, 65; Gonner, Interest and Savings, chap. v; Mixter, The Theory of Savers' Rent and Some of Its Applications, Quarterly Journal of Economics, April, 1899, pp. 245–269, and English works there cited.

possibly abstinence in the original and correct signification of the term — and waiting or abstinence have to be paid for because men are impatient for present consumption, that is, prefer a lump-sum present income to annually recurring future income. Granting the result of this time preference and its attendant impatience, granting also that they may be effective at some hypothetical margin, the conditions which affect the strength, direction, and sensitiveness of their action must, however, be explained. Among the personal characteristics of individuals which affect their "impatience," Fisher [1] names foresight, self-control, habit, expectation of life, and love of posterity. Taussig [2] names among other influences, imitation, emulation, and the desire to transmit to children "a sum sufficient to enable them to take their place among the leisure class idlers." A point insufficiently emphasized is that these personal and social factors influence different classes in diverse ways. Moreover, as Gonner points out, there is great complexity of influence and motive even within the same class; so that any simple linear explanation of the relation between motive or sacrifice and the interest rate is more a logical exercise than a scientific induction.

We have just considered reasons for thinking that the *effective* savings of the poor are not an important factor in capital supply. But even if they were, the argument that the amount saved by the poor will increase as the interest rate rises and decline when it falls is based more on assumption than upon ascertained fact. Security of savings and a machinery for encouraging thrift are probably much more important influences upon savings among the poor than is the interest rate. If the poor

[1] Elementary Principles of Economics, p. 375.

[2] Principles, vol. ii, pp. 19, 20.

save at all it is only by giving up spending for present goods — usually by reducing expenditure even on things necessary for "health and reasonable comfort."[1] That they save at all is evidence of more powerful motives than the few dollars interest they can hope to see accrue. Typical of the savings of the lowest income classes are the funeral insurance carried at heavy cost in the industrial insurance companies, and the money sent by immigrants to friends and relatives in their native land. Just above these come savings for union funds (either insurance or strike funds) and, in the South, savings on the part of cottagers to buy cheap automobiles, which the climate makes well-nigh a necessity. Then come savings which more nearly approach effectiveness — savings for sickness, old age, educating children — in short maintaining a standard of living against future contingencies. In none of these does it seem probable that the rate of interest has great influence, and such influence as it has is probably more in accord with Clark's conception than with the more generally accepted doctrine. However, a lower rate will probably not cause the poor to save more, as Clark would have it, because they are already saving all that they feel they can; moreover, they are saving not for an income through interest on savings, but with the idea of future spending of the principal saved. In any case slight changes in the interest rate, such as in the conventional marginal analysis are supposed to be effective, will have practically no influence one way or the other on the savings of the class under discussion.

It is in the great middle class — the class of business and professional men, with incomes of from $5000 to $25,000, that variations in the interest rate may have

[1] This is the ground on which an increasing number of thoughtful economists and social workers question the desirability of excessive "thrift" on the part of the working classes.

decided influence on the amount of saving. Some line on the importance of its psychology may be had from the fact that it constitutes 24 per cent of the persons making returns to the Internal Revenue Collector, receives 25.75 per cent of the recorded total personal income, and pays 18.78 per cent of the personal income tax.[1] The contributions of this class to the loan fund doubtless constitute an important part of the supply of capital. The nature of its motives to saving, the intensity and net direction of its subjective time preference, and its habitual attitude toward its savings are thus significant. This class is peculiarly the victim of conflicting motives — the one set social, the other of a business nature. A large number of its members are "on the make." Social considerations impel them to spend, business sense to save. In one way, both social and business motives would make for high interest. In another, not so; for if the family wishes to acquire or maintain a social position, it also desires to maintain or improve that position in the future. So far as this holds, the interest rate probably is not a deciding factor in the amount of saving. On the business side, however, saving is recognized as a *sine qua non* of business expansion. If a part of the family is inclined to spend much now, or to save for future social position, the business man is inclined to put a large part of his net income back into his business. It is problematical what influence the interest rate has upon him. The keener he is for the greater profits that come from expanding business the more he will save, regardless of market interest rates. And what holds for the individual will apparently hold for the class as a whole.

John Stuart Mill's statement that whether a thing is capital or not depends upon owner's intention is tanta-

[1] Statistics of Income, for 1917, pp. 5, 6.

mount to saying that the business man can spend his entire income, including what should be written off for repairs and depreciation — the replacement flow — if he wants to. If we mean by conservative saving that which enables us to maintain our capital fund (whether capital goods or loan funds) intact, without increase or decrease, and by cumulative saving that which increases our capital fund, then Mill's dictum — which is essentially followed by most modern economists — implies that the conservative saving necessary to maintain the replacement flow involves sacrifice, just as does cumulative saving.[1] Taking the facts of business psychology broadly, this conclusion is assuredly far from the truth. It overlooks altogether the results of habit and of business point of view. As Kleene[2] aptly remarks, "the maintenance of a capital sum once saved . . . probably means little subjective cost to the confirmed saver even if he be the recipient of only a moderate income." And again, we must agree with Kleene when he emphasizes[3] the importance of "the stores of capital amassed in the past which, whatever may have been their cost of abstinence in the saving, are now maintained inviolate from all thought of ever being consumed, and incapable, therefore, of decrease except through misfortune." Where will you find a business man who does not feel a sort of horror at the thought of "going into his capital ? "

Coming to the class of wealthy and ultra-wealthy, we see the redoubled power of habit and of the business point of view with regard to the inviolability of capital (illustrated, for instance, even in the field of philanthropy by gifts of endowment with understanding that only the income of the principal is to be used). Where,

[1] Even Hobson holds this view, Work and Wealth, p. 92.

[2] Profit and Wages, p. 57.

[3] Ibid., p. 63.

as in the well-to-do middle class, a family is trying to climb higher in the social and economic scale, the motives to spending *vs.* saving are, as we have seen, complex and conflicting. There the outcome depends much upon the intensity of social ambition, upon the realization of the desirability of building a sound financial basis for the future maintenance of position, and upon father's or husband's determination to enlarge his business in some disregard to present "keeping up with the Joneses." If, in the middle class, interest rate is probably a factor of entirely secondary importance in the determination of the deciding line between saving and spending, in the wealthy and ultra-wealthy class it can scarcely be said to cut any figure worth speaking of. The higher income classes — say of over $50,000 — save mechanically, with little or no sacrifice of present wants (tho doubtless a few "climbers" may be found in these upper altitudes also) and in the main without hedonistic calculation. This is not saying that they will not get as high a rate of interest as they can. That is part of the business tradition — to charge what the traffic will bear. It is merely saying that they would probably save nearly as much as they now do even were the interest rate cut in half or even to a fraction of one per cent. All present wants, even at enormously wasteful and conspicuous standards of expenditure, are satisfied without present spending of more than a fraction of present income. If this be not true, one of the current justifications in favor of large incomes falls to the ground, for we are told again and again that the possessors of "swollen" fortunes do not really use more than a very small part of their enormous incomes. As a matter of fact, they cannot. All they can do is to turn the huge unexpended annual or quarterly balance back into the loan and investment fund.

We thus arrive at the fact of *automatic costless* savings — in a sense compulsory savings — and get further light upon the importance of the concept of savers' surplus. For all the interest on automatic savings is savers' surplus.

We have seen that the poor do not contribute an appreciable amount to effective savings. Also that the middle classes are actuated by such a complex of conflicting motives that what they do save — an important fraction of the investment fund — is saved in partial disregard of the interest rate. It is most difficult to estimate the net economic outcome of the social and business psychology of this class, but it is probably safe to say that if they cannot get a high rate of interest they will take a low, without greatly reducing their savings. The active business element will do so because they are most interested in profits and business expansion, the passive *rentiers* because they have an inviolate sum which must find investment no matter how low the rate. If this be true, we must conclude that the ratio of savers' surplus to interest income is in this class very high. Finally, in the upper income ranks, most saving is automatic and costless, and practically the entire interest charge represents unearned income (savers' surplus). Taking the classes which contribute the bulk of the loan fund, we are forced to the conclusion that savers' surplus, altho it may not be exactly measurable, constitutes by far the major portion of the total interest charge upon industry.

It should be pointed out, however, that the more complex the motivation in economic life, and the less simply hedonistic the calculations of an individual or a class, the less definite becomes the concept of savers' surplus, and the greater the difficulty of finding any exact measure of its amount. The active business

man's motive to saving is a profit-motive rather than an interest-motive. It is a positive chance to make money rather than a conscious offsetting of abstinence-sacrifice. He sees a chance to garner large profits and hence may save even tho his impatience rate be high and the market interest rate low. He is in position to pay himself more than the market rate.[1]

What, then, becomes of the conventional marginal analysis of the interest problem? If the foregoing treatment of the subject is substantially true the marginal analysis stands in need of serious revision. The hypothetical mathematically hedonistic marginal saver may exist, but it is doubtful, no matter how many of the type there be, whether he contributes more than a comparatively unimportant trickle to the stream of effective savings. Certainly more objective proof than has thus far been adduced by the marginalists must be forthcoming before the realistic theorist can be convinced that the marginal savers occupy anything like the strategic position in the market for loan funds that has been attributed to them. As to the "marginal savings" of intra-marginal savers — the intensive margin of savings — the marginal analysis can perhaps make out a better case. Here, however, appears the misleading and erroneous simplification of data. The motives to saving *vs.* spending are assumed to be of a calculating hedonistic nature; little attempt is made to

[1] My colleague, Professor Spurgeon Bell, holds that there is no one marginal rate of sacrifice but that "each man is a saver at the rate available for him, at least of such funds as he might not have saved except for his exceptional opportunities." This is in line with the thought of the paper with regard to the psychology of saving. Professor Bell also points out that there is no one rate even of pure or net interest, but that on the contrary rates differ not only in different localities but in the same locality as between borrowers who can, and those who cannot, resort to alternative markets for their loans. It follows that the large borrowers probably get their funds at a lower rate of net interest than do small ones. Such facts illustrate the great deficiencies which must be recognized in the working of competition. They greatly complicate the attempt at a realistic analysis, but they cannot be overlooked if we are to have a true conception of interest phenomena.

ascertain the complex and conflicting motives in a given class, or to analyze the varying resultants of complex motivation in different classes; the influence of habit and point of view is largely ignored; and practically no serious attempt has been made to discover what proportion of the cash loan fund is derived from the various income classes. With the overemphasis — the almost exclusive emphasis — upon the intensive and extensive margins of savings as the determinant of the interest rate, the far greater influence of intra-marginal savings upon the supply of capital and hence upon the interest rate has been overlooked.

This erroneous emphasis is merely the application, in the interest problem, of the wider misemphasis in the problem of value at large. Crude marginalism has it that the marginal firm, *i. e.*, the least efficient firm in actual business, fixes the selling price of a product. ? Where differences of advantage between firms are not permanent, it is evident, however, both from experience and from reason, that in the long run the intramarginal firms are in position to drive the marginal firms out of business whenever they choose to do so. In the long run the efficient firms hold the price-determining power, and if they refrain from cutting prices on the less efficient it is only because by so refraining, and by allowing the inefficient firms to sell at a price covering their higher costs, the efficient firms gain a higher total of profits. Far from being the price determiners, the so-called marginal firms exist only on sufferance, and because it is to the interest of the lower-cost producers to allow them some share in the market. Marshall makes recognition of these considerations in his somewhat indefinite concept of the representative firm. An application of this "representative" concept might perhaps be helpful in an analysis of the interest

problem. The "representative savers" are not the marginal savers, who contribute so little to the effective loan fund, but the intra-marginal savers of the middle and wealthy classes, who save from habit, from class tradition, very largely without close or sensitive response to changing interest rates, and for the most part with a large savers' surplus, if not entirely automatically and without cost. Did competition work with that idealistic perfection by implication attributed to it in the older texts, and even in some that are current, intra-marginal producing firms would assuredly compete with one another and with the marginal firms, until all were brought either to the concentrated (and hence potentially monopolistic) control of large scale companies or to the uniform standard of excellence and the "constant costs" characterizing the "static state," in which competition is based not upon price but on brands, goodwill, and the like. Similarly, we may say that price competition in the service of saving is limited and uncertain. Just as in "business" a monopoly-like element, even in what is regarded as competition, is to be found in the habitual, conventional level of profits which successful producers "expect," so in the field of capital supply there is strong suggestion of habit and convention operative in the middle and upper income classes and leading them to take for granted, as a matter of course, a level of interest which yields a large non-competitive surplus over and above any assignable "cost" of saving. To say that this is a responsive marginal rate would be far from the truth. The market rate, being established in a medium of leisure class habit, convention, and point of view, gives no proof of being a competitive rate based upon costs.

IV. Corporate Surpluses and Bank-Credit Loan Funds

Before we have a complete view of the extent of savers' surplus and costless savings we must give brief consideration to corporate surpluses and to the relation of the commercial banking system to capital creation.

Corporation net earnings not distributed to shareholders but reserved as surplus and eventually invested in enlargement of the plant and business,[1] constitute an important part of total savings.

Friday gives the following estimate of the amounts of corporate surplus reinvested in the United States, 1911–18.[2]

1911	$988,000,000
1912	1,334,000,000
1913	1,469,000,000
1914	1,044,000,000
1915	2,418,000,000
1916	4,982,000,000
1917	5,400,000,000

He further estimates the total savings in this country as follows:[3]

1913	$6,500,000,000
1915	9,000,000,000
1916	14,500,000,000
1917	18,000,000,000
1918	22,000,000,000

[1] In strict analysis, corporate replacement and sinking funds should be classed as savings, if we are to include under that term "conservative" savings, which according to the accepted classical theory are just as much savings and involve sacrifice just as much as do "cumulative" savings, which add to capital equipment rather than merely maintain it. For a simplicity of exposition, however, corporate sinking funds and replacement accounts are here left out of consideration.

[2] David Friday, "The War and the Supply of Capital," American Economic Review, Supplement, March, 1919, p. 85.

[3] Ibid., p. 91.

It follows that corporate savings, if these estimates be accepted, represented the following percentages of total savings:

1913	22.6%
1915	26.8
1916	34.4
1917	33.3
1918	24.5

Of course a large part of the increase in both corporate and total savings is nominal only, being due to inflated prices. There is also probable weight in Friedman's criticism that Friday has not made sufficient allowance for duplications of investment and for inflated inventories.[1] But we are not in this connection concerned with increase of savings. The significant fact is that in 1913 corporate savings appear to constitute one-fifth of total savings. Moreover when we look at the figures for profits of the industrial corporations during the war it is not hard to believe that corporate surpluses really rose to heights which amounted to one-third of the total savings of the country.

Whatever the actual amount of corporate saving may be, no one will question that it is in the aggregate enormous.[2] The question then remains, does it involve abstinential sacrifice or is it costless? No categorical answer can be given. The true answer would depend upon the rate of dividend paid on actual investment, the amount of stock held by each individual, the distribution of stockholders in the various income classes, and the closeness of their hedonistic calculations. To the extent that stock is held in large blocks by wealthy

1 "The War and the Supply of Capital," American Economic Review, Supplement, March, 1919, p. 94.

2 "A large part of the annual harvest of thrift, perhaps the largest part, consists of profits earned by business concerns and turned immediately back into business or reinvestment in related kinds of productive activity." T. S. Adams, "Effects of Income and Inheritance Taxes on the Distribution of Wealth," American Economic Review, Supplement, March, 1915, p. 239.

individuals, corporate saving may be considered costless. In general, no matter who holds the stock, corporate saving is saving "at the source" and whatever sacrifice there might be in an equal amount of savings out of individual incomes after those incomes were once received is greatly reduced by taking out the corporate surplus before dividends are declared. Probably there is no important connection between any psychology of sacrifice and corporate savings. We may agree with Friday, therefore, that at least in periods of rapidly increasing production and profits "a high interest rate is not necessary to stimulate savings," and that "the psychological factors of abstinence and the underestimation of future wants are entirely inadequate to explain the fluctuations in the supply of capital." [1]

We come now to the banks' part in capital formation. According to Moulton the proportion of cash reserves to loans in the commercial banks of the country is about 1 to 16. For every $1000 cash reserve the commercial banking system creates loan funds of $16,000. "This capital," he says, "is only partly working or operating capital; to the extent that the funds borrowed are employed in the creation of plant and equipment it is 'fixed' capital that has been augmented." [2] He further estimates that 20 per cent of the non-collateral loans made by banks to business concerns are used for the creation of fixed capital.[3] He does not, however, give the evidence upon which this estimate is made, merely saying that it is based on "investigations extending over a period of several years." He gives for 1916, the following estimates of loans of an investment nature made by the banks: [4]

[1] Op. cit., p. 93.

[2] "Commercial Banking and Capital Formation," Journal of Political Economy, June, 1918, p. 649.

[3] Ibid., p. 648.

[4] Ibid., tables, pp. 656–658.

National Banks....	$3,328,239,000	(64.4% of loans plus investments)
State Banks.......	2,575,140,683	(62.1% of loans plus investments)
Trust Companies...	3,676,967,708	(68.2% of loans plus investments)

While it is not clear that these amounts can be totaled (as the data for state banks and trust companies are by no means as full and detailed as those for national banks), it is evident that if Moulton's estimates are approximately correct — and his careful analysis gives weight to them — the banks are in virtual partnership with industrial and commercial concerns to the extent of furnishing about nine and one-half billions of loan funds invested for an indefinite period, indeed (barring commercial depression), virtually permanently. Now what "cost" or sacrifice lies back of these nine and one-half billions of bank-created loan fund investments? Leaving out of account the trouble of making loans, administrative expense, etc., the only important element of cost is the sacrifice involved in the original saving of the cash reserve back of them — a reserve which may be put roughly at $600,000,000.

At any given time, therefore, not only is a very large proportion of the actual cash savings made intra-marginally at low or no sacrifice cost, but our banking system at its full expansion of loans multiplies the effectiveness of these savings sixteenfold. Whatever the sacrifice of cash savings is, it is, roughly speaking, only one-sixteenth what it would be were all investments and loans made dollar for dollar in actual cash. There is thus, in the functioning of our banking system another important reason for believing that the conventional view of capital creation has grossly exaggerated its sacrifice cost (abstinence, time preference, impatience). For, as Moulton shows, bank loans constitute a method of capital expansion (enlargement of plant and total amount of manufacturing and merchandising business

done) without curtailment of the present consumption demand necessary as a stimulus and motive to lively business activity.

There is, of course, a limit to the expansion of these practically costless bank loans. Eventually, business enterprise absorbs all the bank credit available (unless reserves be enlarged through saving) and no further increase of loan funds without retrenchment in current consumption is possible. Even so, however, there remains (again barring commercial depression) a permanent costless investment of approximately $9,500,000,000 which may be compared to conservative saving, with the difference that it represents only $600,000,000 actual conservative saving.

Whether in the long run society is any better off, assuming that these $9,500,000,000 of bank credit are at the permanent disposal of entrepreneurs, may be questionable. For whichever way the causal relation between price level and expanding bank loans may lie — and it is probably mutual — it is evident from both logic and experience that the banks' multiplication of the circulating medium and rising prices are concomitant phenomena. In the long run $9,500,000,000 bank loan investment, as over against the otherwise possible $600,000,000 cash investment, represents just that much more pecuniary demand and intensified competition, at higher prices, on the part of business men to get labor and materials. But the same thing can be said, at lower price levels, for any increase in cash savings. The significant fact is that, at any given price level, whatever amount of bank loan investment there is constitutes a very real part of the capital fund — and is practically devoid of any abstinence cost.

? Say's Law

If the foregoing analysis of the psychology of saving and the sources of the loan fund is in the main true, it is

evident that certain results, important in a general theory of distribution, must flow from it. What these corollaries are need not here be discussed, save in one or two cases.

One of these has to do with taxation, and especially with income and excess profits tax.

There can be, it would seem, no reasonable doubt that heavy tax rates on large incomes reduce, perhaps by nearly as much as the amount of the tax collected therefrom, the amount of savings turned back, without sacrifice, into the investment flow. A similar argument may be used, but with less force, in the case of high taxes on corporate profits. So far as such taxes reduce the so-called corporate surplus — the surplus of earnings over dividend payments — they do reduce the amount of costless[1] savings set aside by corporations. Whether such heavy taxation is advisable or not depends, among other things, upon (1) the ability of the government to make more socially productive use of the tax proceeds than private enterprise would make of them as savings and reinvestment funds, and (2) the effect of such taxation on the interest rate. These questions, however, of great present interest and importance as they are, lie somewhat to one side of the main line of our inquiry. The essential points are that the principles of ability to pay and equal sacrifice in taxation are properly applicable to the theory of capital formation, and that income statistics indicate the magnitude of costless savings.

The second point relates to the theory of discounted advances to laborers and to the independent determination of a definite interest rate by some subjective

[1] "Costless" so far as the immediate process of creating and reinvesting the surplus is concerned. There may be heavy cost to workers, in low wages, long hours, and poor working conditions; to the consumer in high prices, and even to stockholders who are in only moderate financial circumstances. But the saving is done "at the source" and whatever indirect cost is involved is softened by that fact.

marginal cost or sacrifice. The whole trend of our argument must, if accepted, throw grave doubt upon the conception of an independently determined rate. And if there is no such independent subjective determination all theories of interest based upon such subjective factors are open to suspicion. Furthermore, Taussig's discounted marginal productivity theory of wages will have to be amended in essential particulars, even if it does not have to give way to some more realistic, if less simple, theory. For that theory requires as a basis a discount rate independently determined by the subjective cost (time preference, impatience, abstinence) of the large volume of savings which its author thinks (erroneously, according to the above analysis) can be found at the margin. This subjective marginal discount rate he attempts to remove from the realm of metaphysical psychology by appeal to objective fact — the fact that the pure interest rate has been tolerably constant for over a century and that it has not fallen below 2 or 2½ per cent. His historical argument is not convincing, however, and the present writer feels bound to reject it, not only upon grounds suggested in the preceding pages, but from historical facts to which Taussig has not given sufficient emphasis.

The entire period since the industrial revolution — the period, roughly, in which the interest rate is regarded as having been fairly stable — was, it must be remembered, a period of remarkable industrial and commercial expansion. The race between invention and accumulation—to which Taussig gives such suggestive and fertile attention,[1] was never so swift — may never be so again. On the whole, invention won. This period was also, on the whole, one of remarkable expansion in consumption. A lively effective demand for consumers' goods co-

[1] Principles, vol. ii, p. 27.

operated with remarkable improvement in productive technique, rapid and revolutionary invention and installation of expensive machinery, and a market expanded geographically beyond the dreams of preceding centuries. Great profits of manufacturing and commerce made saving easy, concentration of wealth made much of it costless, the development of corporations and conservative dividend policies introduced saving at the source — corporate surpluses — and in the last half century the remarkable development of commercial banking added a new method of providing loan funds at extremely low sacrifice cost. In spite of these low-cost or costless methods of savings and "advances" the expansion in demand, until late decades, was so great that the interest rate had no occasion or opportunity to fall to an extraordinarily low level. Had it not been for expanding opportunities of foreign investment, however, it seems certain that the outlet for surplus funds in the later decades would not have been large enough to drain off savings at a rate of even 2 per cent. Otherwise how are we to explain the scramble for foreign investment opportunities ?

If, then, the objective historical facts relied upon to prove the existence of minimum subjective sacrifice rate of at least 2 or 2½ per cent prove inadequate to that task, and if examination both of the sources of savings and of the actual complex motivation and behavior of savers gives no indication that marginal savers and marginal savings occupy the strategic position in the fixation of the market rate of interest assigned to them by the conventional marginalist doctrine, what becomes of the doctrine of discounted advances ?

The foregoing analysis, indeed, should suggest anew the insufficiency of all theories of distribution based upon hedonistic marginalism, and all theories which

directly or by implication make any certain "irreducible minimum" rate of interest the first charge upon industrial product. Such theories are essentially residual theories. While, under any system of economic organization, capital must be kept up and this upkeep must be allowed for before the net product is distributed, it seems probable to the writer that inductive, factual research, in place of metaphysical logic and a pseudo-scientifically simplified psychology, will lead toward some bargain theory of distribution rather than toward any form of residualism or imputed productivity.

These considerations, however, would take us beyond the scope of the present article, the main purpose of which is to suggest anew the magnitude and importance of savers' surplus, and to leave to the reader speculation as to the possibility or practicability of the social appropriation of this surplus — a surplus apparently just as "unearned" as the socially produced increment in land rent. Such speculation need by no means take one into the realm of socialism, for there are obvious means, some direct, some indirect, for social appropriation of as much of the surplus as it would be safe, in the interests both of justice and expedience, to attempt to take. The direct means lie with the workers, their higher standards of living, cessation of redundant immigration, a lower labor-class birth rate, and increased effectiveness of bargaining power. The indirect means lie through perhaps even more steeply graduated income and profits taxes together with more scientific and intelligent application of public revenues to social purposes.

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INDUSTRIAL MORALE

SUMMARY

I. The problem and its significance, — II. Some more obvious causes of low morale, 40. — III. Prevailing business philosophy as a cause of low industrial morale, 41. — IV. Efforts to arouse fear of the management among workers, 44. — V. Influences destructive of workers' faith in the importance of their work, 45. — VI. Failure to recognize and reward merit, 49. — VII. Transitory and precarious nature of employment, 53. — VIII. Relation between the men and industry, 54. — IX. Relation to the problem of industrial organization, 59.

I

THO industrial morale is closely related to the state of contentment or unrest of the working force, the two are not to be confused. Industrial morale refers to the degree of coöperation extended by the employees of an enterprise to the management in the course of their work, the interest they manifest in their work, and in the enterprise by which they are employed, and their willingness to assume a share of the responsibility that their work is properly and expeditiously done. The test of industrial morale is the degree of coöperation extended by the men to the management in the operation of the plant.[1]

Industrial morale has acquired recognition as a matter of prime importance largely as a result of the shift in economic power from capital to labor which has accompanied the war and which has resulted in the passage in

[1] This is not intended to be a comprehensive definition of "industrial morale." In other connections it may prove desirable to give the term a considerably broader meaning. The above statement is intended to give a definite meaning, broad enough for the purpose of the present discussion.

large measure of the control of production from the hands of capital into the hands of labor. Before the war, capital's economic superiority was sufficient in most industries to give it what was regarded as a fairly satisfactory control over the output of its men. By holding over labor the fear of discharge, capital was able in considerable degree to control the speed of work, and to compel labor to produce what the management regarded as a fairly adequate day's work. Because of the control over output which capital's economic superiority placed in their hands, managers, altho aware of labor's lack of interest in production, and even of the deliberate efforts of workmen to limit it, did not regard the unsatisfactory state of industrial morale as an urgent and pressing problem. On the contrary, they tended to accept labor's lack of interest in production as more or less inherent in the very nature of things, and hence were inclined to regard attempts to develop labor's coöperation as not only unnecessary but useless.

As a matter of fact, the control over production which capital's superiority in pre-war days gave to the management was by no means as complete as managers themselves supposed it to be. Despite their economic inferiority and despite the pressure applied, the men frequently were able to withhold output on a substantial scale, and the efforts of managements to exact more output merely stimulated more concerted efforts among the men to withhold it. In the period immediately preceding the war, managers were awakening to the incompleteness of their control over production, and as a result were beginning to realize the importance of industrial morale and the need of developing a more coöperative attitude on the part of their men. The great majority of managers, however, still remained satisfied with the degree of control over production afforded by their

dominant position, and for this reason industrial morale failed in the pre-war period to obtain general recognition as one of the outstanding industrial problems of the day.

The passing tendency toward a transfer of control over production from the hands of capital to the hands of labor has given industrial morale a new importance.[1] As long as production could be satisfactorily sustained by economic pressure in the form of discharge or threats of discharge, it could well be a matter of secondary importance whether or not labor was interested in output. But with output dependent primarily upon labor's willingness to produce rather than upon capital's ability to compel production, labor's willingness to produce becomes of supreme consequence. Managers no longer can afford to regard labor's lack of interest in production as more or less inevitable, to be expected and made the best of. If output depends primarily on labor's willingness to produce, then labor *must* be interested in production. The new conditions have created what may safely be termed the paramount managerial problem of the day — the problem of getting a satisfactory output when the control of production is largely in the hands of labor, of developing in labor which is too strong to be coerced, an interest in output and a willingness to coöperate in order to obtain output.

Nor is this problem a temporary one, likely to vanish permanently with the first touch of industrial depression or the resumption of immigration. Altho, with the resumption of immigration or the coming of depression, capital may be expected to regain much of its lost economic power, and in consequence much of its control

[1] Acquisition by labor of a substantial control over its rate of work does not necessarily involve an equally extensive gain in its control over wages or conditions of employment for less economic power appears to be required to enable labor substantially to reduce its pace than to enable it to exact higher wages or more favorable working conditions.

over output, the permanent trend is likely to be a gradual growth in labor's economic strength, and with it an ever increasing ability on the part of labor to resist driving and to make output dependent on its own willingness to produce. Hence industry must face the fact that the permanent problem will be how to function efficiently with economically powerful labor, how to maintain satisfactory output despite impaired economic control over workmen by the management. Tho this problem temporarily may become less serious, it is likely in the long run to become steadily more acute.[1]

This paper will not attempt to discuss the constructive aspects of the problem of industrial morale, to analyze ways and means by which labor's coöperation in production may be developed. It will be primarily confined to the more fundamental aspects of the problem — to an analysis of the principal causes of the prevailing low state of industrial morale. Analysis of the causes for the existing low industrial morale may suggest constructive measures, but no attempt will be made to outline a definite program.

[1] The fundamental nature of this problem is apparent. The attainment of a high general wage level, with all that it implies from the standpoint of human welfare, requires, according to accepted economic theory, that labor be relatively scarce. But if, as the scarcity and economic power of labor increase, its efficiency decreases, labor's gain in wages will tend to be relative only, not absolute and substantial. The attainment of maximum real wages depends upon the ability to check the tendency for labor's efficiency to decrease as its scarcity increases.

In noting the significance of changes in labor's economic power attention should be directed to the effect of these changes upon managerial methods. Too often in discussions of systems and philosophies of management an absolutist point of view has been adopted and specific systems of management have been recommended as the only true "scientific" systems of management. As a matter of fact the desirability of managerial policies depends largely upon economic conditions. The drive system of management was fairly effective as long as labor was economically weak. But when capital lost its economic dominance, the drive system broke down and managers sought new methods of handling labor. Already with the passing of labor scarcity a return to the old drive methods is occurring. The same dependence of managerial methods upon the relative economic strength of managed and managers is observable in the handling of different classes of labor.

II

Of the numerous causes which combine to create low industrial morale several of great importance may be passed over with little or no discussion. Fatigue, ill health, and nervous strain are well known to cause low morale but analysis of the extent to which modern industrial conditions and processes produce these physical and nervous causes must be left to the physiologist and the psychologist. No explanation is needed of the effect upon morale of the belief, widespread among workmen and far from wholly unjustified, that if they work too hard they will work themselves out of their jobs. Dissatisfaction of the workers with their treatment by the management is to be counted among the most important causes of low morale, for it is common knowledge that men tend to hold back and to do as little as possible for those against whom they feel a grievance. Another important, tho self-evident, cause of low morale is the widely prevalent belief among workmen that there is gross unfairness in the distribution of burdens and benefits in society, that the wage earners, who perform the heaviest, dirtiest, least interesting, and most disagreeable tasks, receive unreasonably small shares in the good things of life. Workmen who feel this keenly do not respond readily to attempts to interest them in more production. They feel that they already are doing more than their share of the disagreeable and onerous work that is to be done and incline to seek compensation for the unattractiveness of their jobs and the meagreness of their pay by doing less rather than more whenever opportunity occurs. Mitigating the severity or disagreeableness of their jobs by "taking it easy" is the only means at their disposal for partially equalizing what they conceive to be the unjust distribution of

benefits and burdens and they use this means without compunction. Finally, and perhaps most important and self-evident among all the causes of low morale, is the use of drive methods by managements to sustain and increase output. A more effective means of creating low morale could scarcely be conceived, because the drive system renders conflict instead of coöperation between the men and management inevitable. The drive system recognizes no standard day's work. On the contrary the aim is constantly to force up the speed of work. The men naturally resist these efforts. In consequence the working pace becomes the subject of a constant struggle between the men and the management. But men do not coöperate with those against whom they are struggling. Instead of affording a basis and inducement for coöperation, the drive system compels the men to concentrate their attention and ingenuity upon limiting output, and upon frustrating the efforts of the management to push up the pace.

III

Low industrial morale is a natural effect of the adoption by the workmen of the prevailing business philosophy of the time. This philosophy is one of "getting" rather than "giving," of profit making rather than service rendering. Business men frankly admit that they are in business not primarily to render service, but to make money. Anything less is not business, but philanthropy. Business, as the business man sees it, is a bargaining process in which each party is justified in getting as much and in giving as little as possible. It is not the duty of either party to a bargain to see that the other receives an equivalent for what he gives; on the contrary, the ability to drive an advantageous bar-

gain, to obtain a large return for a small payment is esteemed as a desirable and important element in business capacity.

Altho the prevailing philosophy of business for profit rather than for service may perhaps be justified on the ground that no other arrangement provides sufficient incentive to sustain vigorous business activity, the acquisitive philosophy, when adopted by the workmen, has the serious drawback that it is fatal to morale and efficiency, because it justifies workmen in rendering as little service as they dare give for as high pay as they are able to exact. The adherence to this philosophy by business men renders inevitable its adoption by the workmen. When workmen observe the business world in general to be interested in getting but not giving, in returns rather than service, especially when they observe that their own employers in their relations with themselves endeavor to get the largest possible output while holding remuneration as low as possible — is it to be expected that the workmen will be guided by a philosophy of service? If it is legitimate to get all that is possible and to give as little as is necessary in selling commodities, is it not also legitimate for the laborer to give as little output as he must? If bargaining power governs wages should it not also govern output? If ability to drive an advantageous bargain, to obtain a large return for a small payment, is a praiseworthy quality in business men, is it not also to be esteemed by workmen? When the laborer complains of wages, hours, or conditions in the plant, he customarily has been told, "If you don't like things here, why don't you get out?" May not labor with equal justification (or lack of it) reply to employers' complaints about the quantity or character of his work, "If you don't like the way we work, why do you employ us?" In vain may

business leaders denounce the practice of an acquisitive philosophy by labor as long as workmen observe that business enterprises practice the same philosophy.

Not only does the pursuit of business for profit by employers encourage workmen to practice the same philosophy, but the knowledge of workmen that they are employed by organizations which are primarily seeking profit rather than rendering service, lessens their interest in work and their willingness to do their best. Realizing that their employers keep for themselves, in so far as they are able, the benefits of the workmen's skill and exertion, and that an increase in their efficiency means first of all larger profits for the employers and only incidentally and indirectly benefits for the public, the men tend to feel themselves instruments for creating private profit rather than for rendering useful service.[1] But they cannot feel inclined to exert themselves greatly in the interest of some one's private gain. On the contrary, the belief that the principal and immediate effect of improvement in their efficiency will be greater gains for their employers and that by doing more or better work they will more than ever be playing the part of mere profit making machines, renders them indifferent to how much they do and how well they do it, unwilling to attempt more or better work. Much has been written recently of the creative impulse and of the conditions in modern industry which hinder its development. Important among these conditions are the belief of the men that the principal result of more or better work is the enhancement of private profits and their aversion to playing the part of profit creating instruments.

[1] The attitude of the workmen is illustrated by a remark of an old lathe hand who ran a machine next to that of the writer in a Chicago factory seven years ago. Speaking of his feeling at the close of the day's work he said, "You don't feel as if you'd accomplished anything. And you haven't. You've just made a horse of yourself so some one else can take things easy. You ought to be put in a stable and fed just like a horse."

IV

Low industrial morale results from fear and resentment inspired among the workers by certain managerial policies. Mr. MacKenzie King has emphasized the importance of fear as a complicator of industrial relations.[1] It is not generally appreciated, however, to what extent fear of the management by the workmen has been deliberately and consciously fostered. The steady pursuit of a policy designed to arouse fear of the management among the workers was a natural accompaniment of the so-called drive system of management, the success of which depended upon the men's willingness to submit to being driven. In order to create a docile and subservient attitude on the part of the men and cause them to submit readily to being driven, managements deliberately sought to foster fear of themselves among the men. To this end they maintained as a matter of policy a brusque, more or less harsh, distant and stern attitude toward their men. They resorted to discharge on fairly slight provocation. They discouraged the airing of grievances. The man with a complaint was told, "If you don't like things here, you can quit." To be lenient or friendly or considerate, to give ear to complaints or to grant redress would cause the men to feel that the management was "easy," that it could be "bluffed" or "worked" and that it need not be feared or carefully obeyed. It would destroy the docile, submissive attitude which was essential if the men were to yield readily to drive methods. Above all, it was felt that the men must be made to feel that the management was strong and powerful, determined to have its way and not to be trifled with.

[1] Industry and Humanity, pp. 115–117, 233–263, 332–334.

This process of inspiring fear among the workmen was admirably adapted also to inspiring hatred. In proportion as the management succeeded in arousing fear of itself among the men it succeeded also in arousing antagonism. The effect upon morale is obvious. Men endeavor to render good service to those toward whom they bear good will but withhold their coöperation from those toward whom they bear ill will. The drive system stimulated the workers to withhold production merely as an expression of antagonism to the management. With the changed economic position of labor during the last five years, the drive system has had to be severely tempered or abandoned. The old fear of the management has largely gone and labor's habit of docility has at least temporarily been broken. The resentment and antagonism aroused in pre-war days by the drive methods, however, still remain and continue to cause a deliberate withholding of output.

V

Among the things which induce men to feel responsibility for the character of their work is the conviction that the job is important, that it makes a difference how it is done, and that in doing it the workman is making himself of some importance. Take away this feeling that the work is important and it tends to become drudgery, which the men then seek to lighten by doing as little as possible. Modern industry contains a number of influences which tend to diminish the importance of their work in the eyes of the workmen and consequently their disposition to feel a keen responsibility for the character of their workmanship. The acquisitive philosophy which actuates business enterprises is to be reckoned such an influence because it

leads workmen to think of their work as something done for some one's private profit rather than for some one's service. The mere vastness of modern industrial establishments is another influence. In the case of certain "key men," who are vital to the operation of the establishment, large size has the contrary effect; for the larger the establishment dependent upon them, the more important, naturally, the "key men" feel themselves and their work to be. The ordinary workman, however, tends to think himself and what he does of little consequence, simply because he is one among so many and his work such a small part of the whole.

The feeling of unimportance which is fostered among workmen by their submergence in the vastness of industrial establishments is accentuated by the character of the work. For years managers in their pursuit of economy have been endeavoring, by the subdivision of labor and the development of jigs, fixtures and semi-automatic machines, to make each job as simple, mechanical, automatic, and fool-proof as possible, to eliminate from it as far as possible all the exacting elements, to relieve the workman of the necessity of exercising dexterity, initiative, ingenuity, judgment, and to reduce his responsibility to the minimum.[1] The results from the standpoint of economy have been admirable, but from the standpoint of morale pernicious. The typical factory job has been reduced to something

[1] The elimination of the exacting elements from the great mass of the jobs is often accompanied by the concentration of these exacting operations in a few "key positions." Thus in machine shops the exacting elements in the work of the machine hand who formerly ground his own tools, set his own machine and perhaps repaired his own belts, have been transferred respectively to tool grinders, machine setters or set-up men, and beltmen. The importance of these "key" positions, the more exacting character of the work attaching to them, the responsibility which they involve, and the pride which the holders are able to feel in their work, naturally tend to raise the morale of their holders. It is to be noted as a qualifying circumstance, however, that the exacting elements removed from a single job, instead of being concentrated in a single position, are often, as in the above illustration from machine shop practice, distributed among several positions, the importance of which, of course, is thereby limited, to the detriment of the morale of the holders.

that "anyone can do" after a few days' or weeks' experience. The workmen have this emphatically impressed upon them by observing new men, often of nationalities which they regard as inferior, being brought into the shop and taught the work in a short time. They realize the unexacting character of their work, how little skill or judgment it requires, and, instead of feeling pride and satisfaction in doing it, look with contempt upon it and feel more or less humiliated because compelled to do it.

To feel the importance of his work and responsibility for the manner in which he does it, the workman must know what he is doing, what purpose the part he is working upon serves in the finished product, and how the service rendered by the finished product will be affected by faulty performance of his operation. Many workmen, however, are ignorant of these matters. The parts they work upon are to them merely pieces of wood or metal upon which they perform given operations in given ways without definite vision of what would happen when the finished product is used, should their operation be improperly done. It is only recently that enterprises have undertaken to teach men the significance of their jobs.

The practice of working to standards of accuracy tends to prevent the men from feeling themselves and their work of importance because of ability to do exceptionally accurate work. Custom has caused them to regard skill principally as ability to do exacting and difficult work rather than ability to do much work. They tend to feel more pride in ability to do good work than in ability to work fast. The system of working to predetermined standards of accuracy limits the worker's opportunity to distinguish himself by doing work of exceptional quality, for to pass inspection a part need

only be of standard accuracy. Parts which are better than the standard are treated no differently from parts which barely pass. The only distinction is between parts which are up to standard and those which are not. A workman, tho able to do work substantially superior to that required, will receive no credit for such exceptionally accurate work.

Finally, the policy pursued by many managements, of endeavoring to build up in the men the feeling that they are of little importance, their services of little value, and they themselves easily to be dispensed with now prevents the men from appreciating the importance of their work. This policy is similar to the one previously discussed, of endeavoring to create fear of the management, and, like it, has been pursued as a part of the drive system and for the purpose of rendering the workmen more submissive to drive methods. Managements have believed that if the men learned to regard their work and consequently themselves as important, they would lose their docility, become self-assertive and difficult to control. To render them docile and easily handled, it is desirable that they regard themselves and their services as of little importance to the enterprise. Hence by such means as criticizing freely but commending sparingly, a hair-trigger readiness to discharge, telling those with grievances to get jobs elsewhere if dissatisfied, and by the general attitude maintained toward the men, managements have endeavored to build up among them a feeling that they are of little consequence.

This policy has had a twofold effect. In the first place, in causing the men to feel themselves of little importance, it has inevitably led them to feel their work of little importance. Hence it has tended to lessen the men's feeling of responsibility toward their work. In the second place, the policy has conflicted with the

recognition of merit and, as a result, has fostered the feeling among the men that the management did not appreciate merit and was unwilling to recognize it. In order to cause the workers to feel themselves of little importance it was desirable that merit be not freely recognized. Too generous recognition of merit, it was felt, would encourage the workers to feel themselves of value to the enterprise, develop a feeling of self-confidence and independence among them, and lessen their willingness to submit to drive methods. The effect of lack of appreciation of merit upon morale is discussed more in detail below.

VI

Adequate recognition of merit and good service is an important prerequisite to high industrial morale. Failure of managements to recognize merit and good service adequately means much more than a mere lack of material rewards to stimulate the men to do their best. In the first place, it is important as an indication of the attitude and temper of the management. The lack of material rewards for merit naturally leads the workmen to feel that the management does not appreciate good service. No exertion is more repugnant to workers, however, than that which they believe will not be appreciated. The feeling that good service is not appreciated is nearly as potent as the lack of rewards for good service in deterring the men from exerting themselves to render service of exceptional merit. In the second place, failure to recognize merit is important because it tends to deprive the men of definite hopes for better things in the future. Men can endure disagreeable and discouraging conditions for a considerable period without serious lowering of morale, provided they have

reasonable expectations of better things. But the hope of better things tomorrow is needed to take their minds off the difficulties of today. To men deprived of reasonably definite expectations for the future the difficulties of today seem doubly onerous. Because the work in modern industry involves much that is disagreeable and onerous, it is important, in order to sustain high morale, that workmen see something better ahead. Without such visions they become easily discouraged, disgusted with their jobs, inclined to develop the "don't give a damn" spirit and to seek relief from the disagreeable and discouraging features of their work by doing no more than is necessary.

Modern industry has conspicuously failed to meet the problem of the recognition of merit. This failure manifests itself in a number of ways. Perhaps the most striking has been the practice of arbitrary piece-rate cutting, which has penalized workers of exceptional proficiency instead of rewarding them.[1] A less striking but fully as important instance of failure to reward merit has been the traditional wage policy. Instead of carefully observing the performance of each worker, of maintaining individual efficiency records and promptly raising each man when his work showed clear improvement, managements have pursued the policy of paying the minimum wage necessary. The attitude of managements has been, "If the men are willing to work for a given wage, why should we pay more?" The effect of this policy has been that advances in pay, instead of being promptly awarded when deserved, have been delayed as long as

[1] When the large earnings which lead to the cutting of the rate are due to the rate being set too high rather than to the exceptional speed of the worker, penalization of merit does not necessarily occur when the rate is cut but the psychological effect upon the worker is the same. Moreover in practice sufficient discrimination has not been shown between cases where earnings have been high because the rate has been too high and those where they have been high because the workmen has been exceptionally proficient.

possible, being granted only when regarded as necessary either to prevent the men from leaving or to allay discontent. Since old employees often become more or less attached to their jobs and not only less likely to leave but also less likely to complain, the policy of paying no more than necessary has resulted frequently in old and experienced employees receiving less than younger men of less skill and experience but more difficult to hold. It has also resulted in the taking on of new men at higher rates than those received by men already employed, the management being compelled to pay the market rate to obtain new men, but finding itself able, temporarily at least, to hold men already employed at a rate slightly below the market.[1] In short, the tendency of the traditional wage policy has been to cause wage increases to go not necessarily to the most deserving but to those who were regarded as most likely to quit or to make trouble and to those who were good at talking to the foreman and who were not afraid to risk their jobs by asking for more money.[2]

[1] Within the last year the writer was hired by a large factory at five cents an hour more than the rate received by the man who showed him how to run his machine. All new men for the given class of work were given the same rate received by the writer, which was uniformly higher than that received by those already in the employ of the enterprise and doing this particular grade of work.

[2] The traditional wage policy has resulted inevitably in flagrant injustices. For example, an employee in a middle western factory received thirty-five cents an hour altho other men doing the same work received fifty-five cents. The manager stated that to obtain new men to do the work, he would be compelled to pay fifty-five cents. He also stated that the thirty-five cent man was as competent as any of the others and worth as much as any of them. He received less, the manager said, because he was an old employee who had been with the firm for some twenty years and had become so attached to his job that it was felt that there was no likelihood of his leaving, especially since his age would handicap him in obtaining a desirable job elsewhere. Hence it had been considered unnecessary to raise him when the others had been raised.

In an eastern automobile factory one of a gang received ten cents an hour less than the others doing the same work. Asked whether this worker was less competent than the others, the manager replied that he was not but on the contrary was one of the best in the gang. He received less, the manager said, because he was a cripple and hence would have difficulty in obtaining paying work elsewhere. The manager also stated that the workman was somewhat timid and had not asked for an increase or expressed dissatisfaction with his wage. Hence no necessity of raising him had been felt.

Finally, among industry's manifestations of failure to reward merit should be mentioned absence of systematic promotion based on efficiency. Some enterprises, it is true, have attempted to practice a policy of promotion, relying on the foreman's more or less indefinite impression as to who is entitled to advancement. The two essentials to a satisfactory system of promotion in accordance with merit, namely, definite lines of advancement which enable the men to see clearly what they are in line for and individual efficiency records which give the men assurance that selections for promotion will not be a matter of guess work, are to be found only in a small minority of establishments. In fact foremen not infrequently are opposed to promoting exceptionally proficient men on the ground that when a man is exceptionally good at a given operation, it is best to keep him at it rather than advance him to another job at which he may be a failure or merely an indifferent success.

Among the steps taken to combat the numerous causes which combine to create low industrial morale, greatest progress has probably been made in eliminating failure to recognize merit. Altho most enterprises still lack a policy of carefully rewarding merit, a rapidly increasing number now pursue such a policy. Systematic promotion on this basis is fast being introduced, wage policies are being altered so that individual rates of pay are raised on the initiative of the management whenever a worker shows himself entitled to more, and the practice of arbitrary piece-rate cutting is being gradually abandoned.[1]

[1] Progress in the abandonment of arbitrary piece-rate cutting has been least satisfactory, for often the abandonment of this policy is more nominal than real. Considerable arbitrary rate cutting is done by slightly changing a job, putting a new rate on it, and calling it a new job.

VII

The development of the highest degree of interest in the job and the keenest sense of responsibility for the character of its performance presupposes a belief that the job or at least the workman's connection with his employer is more or less permanent. Hence the transitory and precarious nature of much of the employment in modern industry is to be accounted a source of low industrial morale. Herein appears the significance, from the standpoint of morale, of the absence of machinery for the adjustment of grievances, and of the failure either to protect workmen against arbitrary discharge by provision for truly judicial inquiry into alleged cases of incompetency or misconduct, or to protect workers against lay-off by regularization of production or by reduction of the working period instead of the force in slack times. Realizing that, in absence of machinery for the adjustment of grievances, to leave is their only recourse in event of dissatisfaction with conditions of employment (barring appeal to the management, which too often has been futile), and realizing also that they may at any time lose their jobs by discharge or lay-off, workmen are discouraged from regarding their employment in a given establishment as permanent, from looking forward to an extended career in the establishment, and from cherishing hope of advancing by meritorious service to more responsible, more exacting, and better paying work. They inevitably feel the slighter degree of interest in their jobs and the less keen sense of responsibility for their workmanship which arise out of the feeling that the work is likely to be but temporary.

VIII

Most important of all in creating the prevailing low state of industrial morale is the workmen's conception of the relationship prevailing between themselves and industry — the feeling on the part of wage earners that instead of industry being conducted for their benefit as well as for the benefit of the stockholders, it is devoted almost exclusively to advancing the interests of the stockholders, and that instead of workmen being a part of industry and insiders in it, they are outsiders whom industry is not interested in serving, but from whom it is interested in getting all that it can.

So contradictory to the non-wage earner's conception of industry is that of the workman that it is difficult for non-wage earners to appreciate the workman's point of view. To those outside the wage earning class, industry is a servant — a tremendously powerful and beneficent servant, which makes possible our relatively high standard of living. The non-wage earner compares the comforts and conveniences of the present day with those of a century ago and realizes that it is modern industry with its machines and technical experts which makes possible the difference. The fact that industry makes possible the existing ways of living is to him its distinguishing feature, the thing which determines his conception of it and molds his attitude toward it. To the non-wage earner, industry before everything else is a *servant* — the efficient servant which enables him to live as well as he does.

To the wage earner with his radically different contact, industry is far from being a willing and efficient servant to which he should be grateful for making possible his present standard of living and for helping him to raise it. The workman is aware of the constant en-

deavor of industry to make itself more efficient. He knows of the elaborate staff of operating and technical experts which industry maintains to improve machines and processes, to discover new short cuts, and to speed up the men — all for the sake of "more production" and "lower costs." The workman realizes to some extent the zeal and persistency with which these experts apply themselves to the task of increasing the efficiency of industry and the ingenuity and skill which they display. But the workman is also well aware that the object of this pursuit of efficiency is not to benefit him. He knows that industry does not seek efficiency in order to pay higher wages or to grant shorter hours, or to put itself in a position to mitigate the severity of the wage earner's task. He knows that it seeks to serve one interest and one interest only. It seeks to be more efficient in order that it may pay higher dividends. Hence the wage earner, unlike the non-wage earner, is unable to regard industry as his servant. To him it is only the servant of the stockholders.

The workman, however, does not merely observe that industry makes no positive endeavor to advance his interests (except such incidental and unimportant assistance as it extends in the form of "welfare work"). He observes that in the case of each of the three principal prerequisites to the attainment of a richer and more enjoyable life, more money, more leisure, and relief from fatigue, industry positively *opposes* rather than aids him. If the workman desires higher wages he usually encounters opposition. If he desires a shorter working period he likewise finds opposition. Industry has sought to maintain the ten hour and even the twelve hour day and in some instances the seven day week. It has shown little interest in the relief of fatigue and, instead of seeking to lessen the severity of work, has

sought constantly to increase speed. The indirect effects of efficiency upon the standard of life, which the economist is fond of stressing, the workman does not see. What he does see is the deliberate and conscious effort of industry to keep wages low and hours long, and to increase the speed of work. Hence he learns to see in industry not a servant seeking to help him to live better but a master seeking to dominate him, to hold him down rather than to help him advance, an obstacle rather than an aid in his struggle for a better life. To the question, "What does industry do for you ? " the non-wage earner promptly answers, "Makes possible my high standard of living"; but the wage earner answers, "Works me as hard as it can, pays me as little as it must, and fires me if I kick."

Consider the effect of the workman's conception of industry and of its relation to him upon industrial morale. What could be better calculated to destroy his sense of obligation toward the enterprise by which he is employed and his willingness to coöperate to make it successful and to promote its prosperity, than the feeling that it is seeking to dominate and use him rather than to serve him, that it is working against him rather than for him, that it is seeking to pay him as little as it finds necessary, to prevent his wages from going any higher than it can help, to keep his working day at as many hours as possible and to get more and more out of him by pushing up the speed of the work ? If one party to an arrangement seeks to give as little and to get as much as possible, is it not natural for the other party to do likewise ? No one would expect a workman who feels that his employer pays the bare minimum which economic conditions compel him to pay to reciprocate by doing his best to promote the interests of his employer. Workers cannot be expected to be more in-

terested in promoting the prosperity of industry than industry is in promoting the prosperity of workmen. When industry seeks to keep wages low and hours long, when it consistently resists the workmen's efforts to raise their standard of life, workmen cannot be expected to be interested in helping to make profits large. The workman fails to see why he should help the business man make money when the business man is not helping him to make money. An active effort on the part of the workmen to promote the prosperity of industry can scarcely be expected until the workmen feel that industry is a friendly rather than a hostile force; until they believe it is devoted to the promotion of their interests rather than the exploitation of their weakness; until they believe it is interested in making wages higher not in keeping them low, in making hours shorter not in keeping them long, and in mitigating the severity of the work not in enforcing the maximum speed; until they believe they will promptly and directly share in any increase in the prosperity of industry. Wages and conditions of labor must be determined by the same principle by which dividends are determined — by the *ability* of industry to pay more or to improve conditions not by the *necessity* of so doing.

This appears to touch the crux of the problem of industrial morale. Workmen cannot be expected to feel the maximum interest in the affairs of industry and the greatest willingness to coöperate in order to promote its prosperity, unless they are able to identify themselves with industry, to feel themselves to be a part of it, insiders in it, and to feel also a sense of ownership in it. The feeling of belonging to a thing appears commonly to induce a feeling of ownership toward it. They cannot feel themselves to be a part of industry nor industry to be in part theirs, unless industry is devoted

in a substantial measure to the promotion of their interests, unless managements strive just as energetically to raise wages as they do to raise dividends. The thing which now creates a gulf between the men and industry, which causes them to feel that they are not a part of the enterprises for which they work and that the enterprises are not in part theirs, is the fact that industrial enterprises are devoted primarily or exclusively to the service of the stockholders, often at the expense of the interests of the men. When the men observe how completely outside the purposes of business enterprises is the promotion of their interests, they cannot escape feeling themselves to be merely outsiders.

Suppose, however, that the elaborate organizations which the workmen now see devoted so exclusively to the interests of the stockholders were conducted equally for the benefit of both workmen and stockholders, that the object of the ceaseless striving after efficiency and lower costs were just as much the paying of higher wages as the paying of higher dividends, and that every increase in profits meant just as much an increase in wages as it did an increase in dividends. Instead of feeling themselves mere tools employed for the profit of the stockholders the men would be able to feel that industry existed as much for them as for any one else, that industrial enterprises instead of being their masters, attempting to get as much *out* of them as possible, were their servants attempting to produce as much *for* them as possible. Knowing that industry was being conducted as much for their benefit as for the benefit of the stockholders, the workmen would be able to feel that industry in part belonged to them and that they were a part of it. They would feel themselves to be insiders and would feel the interest in the affairs of industry and the responsibility for its prosperity which an insider, as contrasted with an outsider, feels.

IX

From the foregoing it appears that if coöperation is to be obtained in industry it must be mutual, that labor cannot be expected to give its best effort to industry until industry, instead of being the servant of capital and the master of labor, is the joint servant of them both, devoted equally to the advancement of the interests of each. But the question may be asked does not this imply the necessity of a fundamental change in industrial organization? If industry is to be made as much the servant of labor as of capital, and if labor is to share just as directly in the increased prosperity or efficiency of industry as does capital, must not labor share equally with capital in the control of industry? The answers to these questions must probably be in the affirmative. Industry cannot be expected to be administered as much in the interest of labor as of capital unless labor participates on a somewhat equal basis with capital in the administration of industry.

Hence the problem of industrial morale appears to be in a substantial degree a problem of industrial organization. The present form of industrial organization, which leaves labor on the outside as regards share in control and direct participation in prosperity, renders it inevitable that, barring the employees of a few altruistic employers, the workmen shall feel that they are simply outsiders used for the benefit of industry. Hence the present form of industrial organization must itself be counted among the causes of low industrial morale; and a change in the organization of industry must be regarded as among the prerequisites to the solution of the problem of industrial morale.

It is impossible in this paper to discuss the complicated problem of industrial organization. It is enough

to emphasize the intimate relationship prevailing between the problem of industrial morale and the problem of industrial organization. Industry cannot afford to have such an important factor as labor on the outside. The better organized, the more powerful and self-conscious labor becomes, the less can industry afford it. As the importance of labor's coöperation becomes more apparent, the more apparent will become the desirability of making labor an insider in industry with a corresponding voice in its direction. The admission of labor to a full share in the administration of industry is not likely to come except by a slow evolutionary process, but the need of labor's coöperation may be expected to be one of the principal forces impelling changes in industrial organization and shaping its future form.

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THE BRITISH COAL INDUSTRY AND THE QUESTION OF NATIONALIZATION

SUMMARY

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I. Introductory

It is rather more than a year since the distinguished judge who presided over the British Coal Industry Commission surprised the public by recommending that the coal mines of Great Britain should be transferred to the ownership of the state. In the interval which has since elapsed, "nationalization," clothed with all the splendor and terrors of a policy which few either of its opponents or defenders have precisely defined, has become a watchword of almost mystical significance, and the question of policy has aroused too rough a sea for the timid bark of scientific inquiry to put out of port. The storm was to be expected. When interests so large and so sensitive are concerned, when the precedents which may be created are so far-reaching, no recommendations which are not nicely trimmed to catch the wind can hope to find a smooth passage. Nor is it for one who was compelled

to see continuously and at first hand the complexities of the problem to feel any surprise that others should come to conclusions different from his own, or any regret that they should express them with all the emphasis at their command.

He may be permitted, however, to think it unfortunate that the issues raised should have been discussed from every angle but that of the student. After all, it is by the addition that it makes to knowledge that such an investigation as that conducted by the Coal Commission has, in the long run, its greatest effect. Whatever may be thought of the findings of the Commission, most candid observers will admit that the three bulky volumes in which its proceedings are contained possess from the point of view of the inquirer two merits. In the first place, they give the most exhaustive analysis hitherto offered of the economic and social conditions in what is, in some fundamental respects, the most important of British industries. The evidence of Sir Arthur Lowes Dickinson, Dr. Stamp, Sir Ernest Clark, and Sir Richard Redmayne—to mention only four out of a long list of official witnesses—gives a concrete and quantitative picture of the working of the industry, the capital invested, the profits earned and royalties paid, the movements of wages, output of coal and prices, the various elements of cost which together make up the price to the consumer, the organization of the industry from the pioneer company which bores for coal to the trolleyman who delivers it to a household in the east end of London, such as is available for hardly any other industry.

In the second place, the effect of the Commission's inquiries, and, still more, of the chairman's report, has been to bring certain large proposals out of the realm of abstract generalities and to reduce them to a series

of concrete propositions with regard to which some intelligent judgment can be formed. "Nationalization," "public ownership," "individual enterprise," "workers' control," "industrial democracy" — these are phrases out of which controversialists appear able to construct either heaven or hell. But the first condition of reasonable discussion is that it should be known exactly what, whether good or bad, their significance is. That task, at any rate, the Coal Industry Commission, with all its shortcomings, did accomplish. When it began its labors, "nationalization" and "private enterprise" could still be discussed as though each stood for one type of organization and one alone. As the inquiry proceeded it became evident that the possibilities were too complex and various to be summarized under these abstract antitheses. On the one hand, assuming that the private ownership of mines were retained, it was necessary to consider whether it should be as unrestricted as in 1914, or limited, as during the war, by the supervision of a Public Department, or transferred (as Sir Arthur Duckham proposed) from the numerous individual companies existing today to a few large statutory corporations — to ask, in short, *how much* private ownership? and private ownership of *what kind?* On the other hand, if it appeared expedient that the ownership of the mines should be vested in the state, it was still necessary to decide upon what system they should be administered. Directly that question was raised, it became apparent that the public ownership of mines was compatible with a considerable variety of schemes of management. So far indeed was "nationalization" from being a self-explanatory formula that at least half a dozen different systems of administration were submitted in evidence to the Commission. Management might be centralized or decentralized. The

constitution of the industry might be "unitary" or "federal." The authorities to whom it was entrusted might be composed predominantly of consumers, or of the working *personnel*, or of state officials, or of all three in different proportions. Executive work might be placed in the hands of the ordinary civil service, or a new service might be created, with its own rules of training, recruitment, promotion and procedure. The industry might be subject to Treasury control, or it might be financially autonomous.

To discuss the relative advantages of private ownership and nationalization, without defining what particular type of each is the subject of reference, is today as unhelpful as to approach a modern political problem in terms of the Aristotelian classification of constitutions. Not the least of the merits of Mr. Justice Sankey's report was that, by stating in great detail the type of organization which he recommended for the coal industry, he imported a new precision and reality into the whole discussion. Whether his particular conclusions are accepted or not, it is from the basis of clearly defined proposals such as his that the future discussion must start. The abstract dialectics as to "enterprise," "initiative," "bureaucracy," "red tape," "democratic control," "public service" which during the last year have filled the press, and of which some writers who should have known better have not been wholly innocent, really belong to the dark ages of economic thought. The task of economists, whatever their personal views as to policy, is to restore sanity by insisting that, instead of the argument being conducted with the counters of a highly inflated and rapidly depreciating verbal currency, the exact situation, in so far as is possible, shall be stated as it is; uncertainties (of which there are many) shall be treated as uncertain;

and the precise meaning of alternative proposals shall be strictly defined. They may not find a solution. They will at least do something to create the temper in which alone a reasonable solution can be sought.

II. The Organization of the Industry

(a) *Before the War*

Judged merely by the magnitude of its operations, the number of workers employed, the value of the output produced, and the amount of capital invested, the coal industry has been for the last thirty years the most important of British industries except agriculture. Judged by its place in the economic life of the community, and by the dependence upon it, not only of the comfort, but of the whole industrial activity of the nation, it is easily the most important of all. Under the industrial system which has grown up in the last century and a quarter, coal is quite literally the foundation of British wealth. It is the magnet which draws raw materials from the ends of the earth, the raw material which enters into the cost of every manufacture, and the export which, by saving ships from going out in ballast, cheapens imports and contributes to the expansion of British shipping.

To understand the problem with which the Commission was faced it is necessary to know in outline how this great industry is at present carried on. The proved coal resources of the country, in seams of one foot and more in thickness, were stated by the Commission which reported in 1905 to be 100,914,000,000 tons above the depth of 4,000 feet, and 5,239,000,000 tons below the depth of 4,000 feet. They, or those of them which are worked, are the property of some

3,789 separate owners, including individuals, firms, and companies, the total income derived from them in royalties being £5,960,365. The minerals are leased by the owners to about 1,452 lessees — the "mine-owners" — of whom the most important are limited companies, and who work them through 3,129 coal mines situated in a dozen different coal fields and organized in 22 different districts. The capital invested in coal mines was estimated as £135,000,000 in 1914, and the number of shareholders as 37,316 in companies engaged in coal-mining only, and 94,723 in companies engaged in coal-mining and allied industries; figures which, however, in all probability contain numerous duplicates. The total number of workers engaged in the industry had grown rapidly in the twenty years preceding the war. From 1894–98 it averaged 680,800; in 1908, it was 972,232, and in 1914, 1,110,884. The increase in the total output of coal had been equally remarkable. From 1894–98 it averaged 195,500,000 tons; in 1908 it was 261,500,000 tons; in the five years from 1909–13 inclusive it averaged within a fraction of 270 million tons. At the same time, with the exhaustion of the more easily available coal and with the deeper workings thus made necessary, the output per worker had fallen: from 1894–98, it averaged 286 tons, from 1909–13, 257 tons. There is no foundation, of course, for the comparison sometimes made between the average output of a miner in Great Britain and that of a miner in the United States. One might as reasonably compare the timber produced in this country with that obtained from the virgin forests of America. In the United States much coal is still obtained from shallow workings. In Great Britain it must be laboriously won after elaborate engineering operations by men who not only descend as deep as

2000 to 3000 feet below the surface, but who, when they are underground, must walk one, two, or even three miles to reach the coal face.

What becomes of the coal when it is raised? About 6 per cent is consumed by the collieries themselves. The remainder is carried in small consignments and almost entirely by rail (for the canal and the coasting traffic are insignificant) to the principal distributing centers, in some 1,400,000 to 1,500,000 wagons, of which 800,000 are estimated to be the property of the railway companies, and the remaining 600,000 to 700,000 the property of more than a thousand separate collieries and merchants, each of whom reserves its own trucks for its own use. On reaching the distributing centers, the coal is allocated to one of three main uses. Of the 287,430,000 tons raised in 1913, 73,400,000 tons were used for bunker or for export, and 214,030,000 tons were consumed in this country, of which rather more than three-quarters were used for industrial purposes, and rather less than a quarter went to supply the needs of the householder. Before, however, coal used for domestic consumption reaches the actual consumer, it passes through the hands of a series of agencies. Thus, of the 8,000,000 tons annually consumed in London (if the London County Council, coöperative societies, hospitals, and other public purchasers are omitted) a good part is (*a*) sold by the colliery to a factor; (*b*) sold by the factor to a merchant; (*c*) sold by the merchant to the consumer, or in some cases to a dealer, who sells it to the consumer. Not all these stages are gone through in every case. The distributive agencies are, however, very numerous. According to the evidence supplied to the Coal Industry Commission, the number of factors in the country is approximately 1500, and the number of retail distributors 27,000 to 28,000.

The system in operation before the war, then, was one under which some 1500 companies got about 270,000,000 tons of coal from some 3200 pits and sold it to numerous distributors for the best price they could get, while the distributors in turn sold it to each other or to the consumer and charged what price they could extract by the higgling of the market. Competition between colliery companies was probably as free as it ever is between any producers, and freer than it is between most. Various attempts at combination had been made in the past, in order to eliminate waste and maintain prices. Prior to the war, as at the present day, local rings of colliery companies settled the price to be charged from time to time in particular markets, so as to avoid underselling each other; there were agreements, formal or informal, between merchants; some markets were dominated with greater or less completeness by a few large distributors; and, of course, as far as questions of wages and conditions of labor were concerned, the mine owners were strongly organized in their local associations, and in the Mining Association of Great Britain. But tho particular combines had been established, all the plans for comprehensive amalgamation, whether by districts or nationally, which had from time to time been mooted, had broken down. In not a few cases, indeed, even the most obvious and essential schemes of coöperation, with regard for example to the drainage of water-logged areas, had been frustrated.

(b) *Control during the War*

On this system came the war, and the war brought the coal industry, as it brought other industries, into a new relation to the state. The principal legislation affecting it has in the past consisted of (*a*) the Coal

Mines' Regulation Acts, of which the first was passed in 1842 and the last in 1911, and which were concerned mainly with safety; (*b*) the so-called Miners' Eight Hours Act of 1908; (*c*) the Miners' Minimum Wage Act of 1912. From 1915 onwards, the whole position was changed. A new system of regulation was introduced, which had as its objects (*a*) to secure the maintenance and increase of the output of coal, which was threatened by the immense scale on which the mineworkers enlisted, (*b*) to control the export of coal, partly for economic, partly for political and diplomatic reasons, (*c*) to protect the home consumer against famine prices, (*d*) to secure the most economical distribution of coal between different parts of the country, (*e*) to prevent the interruption of the industry by disputes, (*f*) to keep the less remunerative collieries at work by subsidizing them from a levy imposed on the remainder.

The system of control did not reach its final form until 1918. Then a "profits standard" was fixed for each undertaking, not based, as might have been expected, on its *average* profits, but (at the option of the mine owner) on either the *best* two out of three, or on the *best* four out of six, of the years before the war; the mine owner retaining the right to substitute, if he thought fit, a profit of 9 per cent. These profits were guaranteed by the state, subject to proportionate reductions for reduced output. The excess was subject to two deductions, (*a*) the Excess Profits Duty, which amounted to 50 per cent in 1915, 60 per cent in 1916, and 80 per cent in 1917; (*b*) a deduction of 15 per cent, from the profits of collieries making above the "profits standard," to be paid to collieries falling below it. In 1914, therefore, collieries retained all their excess profits, in 1915, 50 per cent; in 1916, 40 per

cent; in 1917, 20 per cent; and in 1918, 5 per cent. The "pooling" of profits, of which more will be said below, was thus to a slight extent adopted.

Five per cent may seem a small "excess" to be retained by the coal owners. But that figure does not tell the whole story. The "profit-standard" was set at an extremely generous level. The years immediately preceding the war, on which the standard was based, were abnormally prosperous; the choice given to the mine owner of the basis enabled him to select that most favorable to himself; while even of the sum taken from him part went, not to the public, but to protect other mine owners against loss. Nor must it be forgotten that prior to 1918 a much larger proportion of the excess profits than five per cent was left to the coal owners. It is not surprising, therefore, that the shareholders in coal mines should have reaped a golden harvest during the war. In the five years up to and including 1913, profits (exclusive of royalties) averaged £13,100,000. The standard fixed by allowing the mine owners to retain the profits, not of the average but of the most favorable, years before the war, was actually, as the government has recently told the House of Commons, £22,000,000, and they paid the excess profits duty, not on the sum by which the war profits exceeded the average pre-war profits, but on the amount by which they exceeded the standard of £22,000,000. In 1914, when there was no excess profits duty, profits (exclusive of royalties) were £15,500,000. In 1915, when the excess profits duty was 60 per cent, they were actually £37,800,000.

III. The Alleged Waste and Extravagance of the Existing System

It was this system, private enterprise as modified by a somewhat hastily created superstructure of control, which came under the review of the Coal Industry Commission. The occasion of its appointment was a demand by the Miners' Federation for a 30 per cent advance in earnings (exclusive of the 3*s.* war wage), for the substitution of the word "six" for the word "eight" in the so-called "eight-hours" act of 1908, and for the nationalization of mines and minerals. Appointed under an act of Parliament which conferred unusually wide powers, the Commission consisted of a judge of the High Court, Mr. Justice Sankey, as chairman, three mine owners, three miners, three business men not directly connected with the mining industry, and three economists. On March 20, 1919, it produced its reports on wages and hours. That of the chairman and of the three business men who signed it with him declared that "even on the evidence already given the present system of ownership and working in the coal industry stands condemned, and some other system must be substituted for it, either nationalization or a method of unification by national purchase and/or joint control"; it recommended an advance in wages of 2*s.* per shift for adults and 1*s.* per shift for boys, the substitution of the word "seven" for the word "eight" in the act of 1908, and a further reduction of hours to six after July 13, 1921, "subject to the economic position of the industry at the end of the year." The three mine owners recommended an advance of wages by 1*s.* 6*d.* per day for adults and 9*d.* for boys, and a reduction of hours to seven. The six other members of the Commission re-

ported in favor of granting the miners' demands, and argued that, were the production and distribution of coal more effectively organized, this concession need not entail any additional burden on the consumer. The reports on the question of nationalization appeared on June 20. Mr. Justice Sankey recommended that mines and minerals be acquired by the state, and accompanied his proposal with a carefully worked out scheme of decentralized administration. With this report six other members of the Commission, the three miners and three economists, expressed general agreement. Sir Arthur Duckham presented a separate report, advising the acquisition of minerals by the state and the unification of mines in the hands of large statutory coal corporations. The three mine owners and two business men recommended the nationalization of minerals, but were opposed to either the nationalization or the unification of mines. Their proposal was, in essence, the application to the coal industry of a scheme of "Whitley Councils."

Since the appointment of the Commission, tho not demanded by the miners, was made as a result of claims which they had advanced, it is not unnatural that the reader who is familiar with its proceedings only through the press and has not read the evidence submitted to it, should assume that Mr. Justice Sankey's report was inspired principally by a desire to avert a serious industrial conflict by conceding the substance of the miners' contentions. That view is based on a mistaken impression of what actually occurred. No doubt the wishes of the miners with regard to the future of their profession are a factor of primary importance in reaching a conclusion as to policy. One cannot achieve efficiency by imposing upon them, any more than upon doctors, university

teachers, or any other body of professional men a form of organization which does not command their confidence. But, tho their views are an important element, they are only one element, in a problem which affects the whole community. Nor was it evidence submitted by the miners which occupied the greater part of the time of the Commission, or which made the deepest impression upon its members, instructive tho much of it was. What actually happened was what might have been forseen. The Commission started to find out what were the grounds (if any) for conceding or rejecting the miners' demands as to wages and hours, and what the effect of their decision was likely to be on the coal industry, the industries dependent upon it, and the household consumers. To answer those questions it had necessarily to obtain much information as to the existing organization both of the extractive and distributive side of the industry, the cost of getting, transporting and distributing coal, and the existing level of wages, royalties and profits. Indeed, out of the 414 pages which form the first volume of the minutes of evidence, the first 114 consist of statements largely financial and statistical, on questions of fact obtained from officials like Sir Arthur Lowes Dickinson of the Coal Controllers' Department, and Dr. Stamp, assistant secretary to the Board of Inland Revenue. Their evidence revealed defects in the conduct of the industry which, quite apart from the wishes of the miners, appeared to call on public grounds, and in particular for the sake of the consumer, for extensive reforms.

The two witnesses who, whether intentionally or not, did most to convince the chairman and the business men who signed his first report, that "the present system of ownership and working stands condemned," were Sir

Arthur Lowes Dickinson and Sir Richard Redmayne. The former is in private life a member of a well-known firm of chartered accountants; the latter was formerly a director and manager of collieries, then professor of mining at Birmingham, Chief Inspector of Mines under the Home Office and Chief Technical Adviser to the Coal Controller. The first point which emerged from the evidence of Sir Arthur Lowes Dickinson was a simple one. It was the suggestion that considerable financial extravagance was involved in allowing the differential profits of superior mines to pass into the pockets of private shareholders. This criticism was not directed merely or mainly against the mineral owners, who (with a few exceptions) perform no positive or constructive function in the industry. The private ownership of minerals (as distinct from mines) was, indeed, declared highly objectionable by several experts on account of its effect in causing coal to be wasted in barriers between separate properties, in preventing some coal from being worked altogether, and in obstructing the most economical planning and exploitation of the coal field. But the private ownership of the coal, tho highly important from a technical point of view, is financially a bagatelle. Tho some twelve proprietors appear to receive from royalties an income of over £50,000 a year each, the total revenue of the whole 3789 was in 1918 only £5,960,365. In fact, owing to the system on which minerals are leased, the main beneficiaries of the "rent" derived from working particularly rich or advantageously situated seams of coal are not the landlords who own the soil, but the colliery companies who own the mines.

A good deal of the evidence of Sir Arthur Lowes Dickinson was directed to explaining the significance of that surplus for the economics of the industry. It

appears to be considerable. The cost of getting coal varies greatly from pit to pit and from district to district. According to figures relating to the quarter ending September, 1918, out of 458 mines, 164 produced at a cost (including royalties, wages, and bonus) of between 12*s.* 6*d.* and 20*s.* per ton, 211 at a cost of between 20*s.* and 25*s.*, and the remaining 83 at a cost ranging from 25*s.* to (in one case) 49*s.* 6*d.* per ton. These differences are due in part, no doubt, to differences of management. But they are principally due to natural causes, the position and character of the seams, the presence or absence of faults and water, the proximity to or distance from railway centers and ports, and a hundred varying causes arising from circumstances quite independent of the character of the management. The price of coal must necessarily, however, be high enough to cover the cost of getting it under the least favorable conditions, or the weakest pits will close and the price will rise. The result is that the fortunate shareholders in the more favorably circumstanced collieries, which sell at the same price but produce at lower costs, receive a surplus, arising not from any special skill of management but from the fact that they have obtained access to specially profitable natural resources. A price which just enables pits in (say) the Forest of Dean to pay their way, brings a fortune to shareholders in (say) the Powell Duffryn Steam Coal Company, or in the Manvers Main, or in the Fife Coal Company. What this means is shown by the table on page 76. It will be observed that while 8 per cent of the output represented in this table was produced at a loss, more than 60 per cent — nearly two-thirds — was produced at a profit of 3*s.* per ton and over, and more than a quarter at a profit of over 5*s.* per ton.

QUARTER ENDING SEPTEMBER 30, 1918

	Tonnage	Percentage of tonnage represented
Produced at a loss	3,119,939	8.0 per cent
Produced at a profit		
Under 1*s*. per ton	3,203,774	8.3 "
1*s*. to 3*s*. "	8,489,131	21.8 "
3*s*. to 5*s*. "	12,972,083	32.8 "
5*s*. to 7*s*. "	5,361,898	13.7 "
7*s*. to 9*s*. "	3,760,779	9.6 "
9*s*. to 12*s*. "	1,602,957	4.1 "
12*s*. to 16*s*. 6*d*. per ton ..	367,939	.9 "
	38,878,500	

The suggestion which was favored by the advocates of unification (whether with or without state ownership), and which commended itself apparently to Sir Arthur Lowes Dickinson, was that, with a centralized financial system, surpluses could be pooled, and could be used to level up the conditions in the more backward pits, to reduce the price of coal, and to improve the working conditions of the miner. Whether such a plan of using differential profits is economically expedient or not is a point which, it is to be hoped, will be fully discussed by economists. During the sittings of the Commission the financial wastefulness of private ownership was not seriously contested by the defenders of the present system. What is usually said on the other side, and what was said then, is that on the whole the stimulus which it offers to technical progress more than outweighs the loss arising from the payment of surplus profits to private individuals. That much enterprise, scientific knowledge and practical skill have gone to the development of the coal industry in the last half century is obvious, and it is not unnatural that to question the finality of its organization should seem to many of those who direct it an unpardonable impertinence. In fact, however, such an attitude, however

excusable, implies a misreading of the problem. The question is not merely whether individuals have been intelligent and enterprising (which no one disputes) but whether the system within which they work, and which as individuals they cannot alter, is such as to make the best use of their intelligence and to direct their enterprise to the greatest public advantage.

The testimony of Sir Richard Redmayne is weighty. "In my opinion," he said, "the present system of individual ownership of collieries is extravagant and wasteful. That is a somewhat daring statement, but I am prepared to stand by it, whether viewed from the point of view of the coal-mining industry as a whole, or from the national point of view; and I think by thoughtful persons on both sides, both the owners and the workmen, that is pretty generally accepted." The general effect of his evidence, which in the judgment of the writer was not seriously shaken in cross-examination, was to give a picture of individual efficiency hampered, and occasionally stultified, by a cumbrous and antiquated system of organization. Apart from the loss of coal left in barriers, amounting, as he informed the Commission, to between 3500 and 4000 million tons, "much of which would be recoverable under a system of collective working of collieries," there is the not less serious fact that in the actual getting and delivery of coal the cost is increased at every turn, because collieries are managed as little self-contained republics instead of as parts of one organization having for its object the effective service of the public. Collieries buy their materials separately. Collieries arrange separately for the freightage of their coal. Collieries are sometimes drowned out because they will not combine for purposes of drainage. The more backward collieries cannot raise capital to im-

prove their equipment, while their more fortunate competitors are distributing to their shareholders large dividends, part of which under a unified system could be used to raise the standard of production in the more backward mines and thus reduce prices to the consumer. While the average colliery consumption throughout the country is apparently 6 per cent, it varies from 3 per cent at one colliery to 10 per cent at another. Tho the variation is partly due to natural causes, "there is a large possible saving at some collieries, but that again necessitates considerable expenditure of capital, and some of the poorer mines have not the capital to expend." There is waste of ability and scientific knowledge, which could be saved if the unit of organization were widened to include all the collieries in a district, and (for certain purposes) all the collieries in the country. There is waste arising from the irregularity of work, which is inevitable as long as each colliery is owned and worked as an independent unit, but which could be mitigated were work allotted to them on a unified plan, as it is allotted today to the constituent parts of a private combination. There is waste because separate ownership involves managerial and administrative expenses which, if ownership were unified, could be reduced.

For these deficiencies the consumer necessarily, it would seem, pays in a higher price for his coal. Nor ought the interests of the present generation to be the only consideration. Coal is the greatest single economic asset of the nation. Without it Great Britain would be what it was 200 years ago, a sparsely populated agricultural community. It is of the utmost importance that it should be worked in the most economical manner possible. To allow coal to be drowned out by water, to "cream" the pits by working only the

coal which is at present most profitable, to leave coal in barriers other than those which are necessary for technical reasons, to throw small coal into the "goaf"—these things ought to be regarded as a crime against posterity, which sooner or later must pay for them. But that can hardly be the point of view of private shareholders, who naturally desire the largest immediate return for their money. The result is that pits are "creamed," that instead of good and poor coal being brought out together, the latter is left in, and that millions of tons of small coal are wasted. As is shown by the reports, not of the Coal Commission, but of that highly respectable body, the Coal Conservation Committee, it is hardly an exaggeration to say that hitherto the principal source of British wealth has been worked as recklessly as tho, like rivers, coal deposits would be replenished from the clouds.

The defects of the present system are not confined to the extraction of coal. The movement of coal from producer to consumer, carried out, as it is, in comparatively small consignments by some 1,400,000 wagons, of which some 800,000 are owned by railways and 600,000 by mine owners and merchants, is the reverse of economical. "Half the mobile life of a privately owned wagon," the General Manager of the Midland Railway Company told the Commission, "is taken up in empty running." Were wagons pooled, another witness estimated, one-third less would be sufficient for the work. The Coal Transport Scheme initiated in 1916, by securing a carefully-planned instead of a haphazard system of transporting coal, is calculated to have saved 700,000,000 coal ton miles, or £3,250,000, equivalent to 3*d.* on the price of coal.

The price of coal to the consumer is further swollen by the profits of what appears to be an unnecessary

multitude of middlemen. In many cases it passed through three hands — the factors, of whom there are estimated to be about 1500; the distributing merchants, of whom there are said to be 27,000 to 28,000; and the dealers. In some cases, apparently, there are four hands. In the process, the price of coal in London is increased to double what it was on the pit bank, 25*s.*, 5*d.* as against 11*s.*, 6*d.* at pre-war prices, or (at the prices of August, 1918) 43*s.*, 6*d.* as against 23*s.*, 6*d.* At each stage costs are incurred and profits are made. The establishment charges alone of the firms engaged in distributing coal in London amount in the aggregate to some £800,000, and their total net profits to over £500,000 per annum. How wasteful such a system is has been suggested by the experience of the coöperative societies. According to evidence supplied to the Commission by the manager of the Coal Department of the English Coöperative Wholesale, coöperative societies are actually able, while selling coal at the same price as the private trader, to give back to the consumer a dividend of from 2*s.*, 6*d.*, to 5*s.* per ton, merely because they cut out intermediate links, and distribute the coal on a unified and, therefore, more economical system. If water were hawked from house to house in buckets by competing water merchants, water would be scarce and dear; and as long as the household consumer, especially the poor consumer, buys his coal from the last of a series of middlemen, he will continue to pay for it through the nose.

IV. The Claims of the Miners

To express in figures the waste which at present exists, and the saving which might be effected is, no doubt, impracticable. But, in view of the evidence of the ex-

perts, it is hardly possible to resist the conclusion that, in spite of the skill and enterprise showed by individual companies and managers, the present organization of the industry does not make the most economical use of the coal resources of the nation. The significance of that fact cannot be measured merely by the charges which it imposes directly on the consumer. It is intensified by the indirect effect which the consciousness of preventible waste produces among the mine workers. If every superfluous charge upon the production and distribution of coal had been eliminated, it would be reasonable to ask that the miners should set a much-needed example by refusing to extort better terms for themselves at the expense of the general public. But as long as unusually prosperous mines pay large dividends, and the industry, both on the productive and on the distributive side, is loaded with the costs of a system of organization which the most eminent official witness before the Commission stigmatized as "extravagant and wasteful," it is hardly to be expected that the mine workers will postpone claims which appear to them such as can be met, were the improvements suggested introduced, without imposing any additional burden on the community. To the reasonable request to "consider the consumer" they may, with equal reason, retort that they will do so when the consumer shows some consideration for himself by insisting on the removal of deficiencies which are now the commonplaces of the subject. Nor is it the case that miners' wages form so large a proportion of the selling price of coal that the economies possible on other items are negligible. An exact analysis of the items composing the cost of a ton of Derbyshire coal was given for March, 1919, by Sir Justice Sankey in the Appendix to his Interior Report.

	s.	d.
Cost at pit mouth of one ton of Derbyshire coal in March, 1919	21	2
Miners' wages included in above cost	13	5 or 63.3 %
Cost to household consumer in London	44	0
Miners' wages included as before	13	5 or 30.4 %

It will be seen that in March, 1919, mine workers' wages formed 30.4 per cent of the cost of household coal to the London consumer.

Moreover, the miners have their own grievances. It is not merely or mainly, in my judgment, a question of wages or hours. These things are, indeed, important. Up to the Sankey award, and even after it, earnings had not kept pace with the advance of retail prices;[1] nor must it be forgotten that the "Eight Hours Act" was an eight hours act only in name, since the maximum hours were exclusive of the time spent in raising and lowering the workers. Even under the seven-hour day introduced since the report of the Commission, the time spent underground will be on the average seven and one-half hours, and, in a minority of cases, between eight and nine hours.

Behind these plain questions of hours of work and wages, however, are the issues, in some way more difficult and in others more hopeful, of comfort and health in work, of safety, and of professional status. The thinking miner is persuaded that, given forethought and consideration on the part of the management, the disagreeableness of his necessarily arduous occupation might be considerably diminished. Instead of often being obliged to walk, sometimes without payment for

[1] In November, 1913 the average earnings of underground workers were 7*s.* 1*d.*, of surface workers 4*s.* 8*d.*, of all workers (including boys) 6*s.* 7*d.*

The average advance up to November, 1918, was, apparently, 89.7 per cent. The Sankey award brought the average earnings per shift up to 14*s.* 4.9*d.* an increase of 118 per cent over the average earnings of November, 1913. Between July, 1914, and December, 1919, the rise in retail prices appear to have been approximately 136 per cent.

walking time, for half an hour to an hour to and from the face up and down steep inclines, a task as laborious as work at the face itself, he might (wherever conditions permit it) be conveyed most of the way to his work, as in some pits he already is. He might be supplied (in addition to the ordinary safety lamps) with a hand electric lamp, which would at once diminish nystagmus and increase safety by facilitating a more thorough inspection of the roof. Pithead baths and changing facilities (at present introduced, it would appear, by only seven collieries) might be universally established, a reform upon which the independent persons best qualified to judge speak with no uncertain voice. "The provision . . . of baths and facilities for drying pit clothes on the pit head," stated Mr. Walker, the Acting Chief Inspector of Mines, before the Coal Commission, "is, I think, an urgent necessity, and would prove to be a great boon to mine workers, and improve greatly the conditions of their homes. The dirt inseparably connected with the miners' occupations should be left at the mine, and not taken into their houses. The health of the miners and their families, and the social conditions under which they live, would thereby be greatly improved."

And of course it is not only health which has to be considered. There is the graver question of accidents. How heavy a toll the miner pays is shown by the following figures:

	Fatal accidents	Persons injured and off work for more than 7 days
1913...........	1,753	176,868
1914...........	1,219	158,862
1907-16........	12,400 (or 1,240 per year)	

On an average, therefore, the number of men killed each year is 1,240, or about an infantry battalion at full strength. The number injured and off work for

more than seven days is approximately 160,000. Nor is this all. It is often assumed that the majority of the casualties are trifling. But this is an error. "Roughly speaking," stated Dr. Shuffebotham, "there are 50,000 miners injured every year in such a way as to incapacitate them for work for between one and three months, while the number of injuries which cause incapacity between one and two weeks is extremely small, being about 8 per cent of the total. . . . The number of miners who are incapacitated each year and who have not recovered at the end of one year (i. e., who are incapacitated for 12 months or more) is something like 12,000 per annum." Nor, tho the proportion of accidents to output and numbers employed has decreased largely in the course of the last 50 years, does it appear to be decreasing now. The following table shows that for the last 10 years the accident rate has been almost stationary.

	Non-fatal accidents disabling persons for more than 7 days, per million tons of mineral raised	Death rate from accidents under and above ground, per million tons of mineral raised
1908	513.8	4.75
1909	549.9	5.23
1910	569.1	6.37
1911	581.1	4.42
1912	549.9	4.67
1913	585.6	5.81
1914	568.1	4.37

During the last 20 years, some 25,000 persons have been killed in the mines, and some three and a quarter million have been injured. It may readily be conceded that the miner's, like the sailor's, must always be a dangerous occupation; nor is it implied that there has been, at any rate in recent years, any culpable negligence on the part of the management. It will be recognized, however, that the special circumstances of the

mining industry are such as to enable the miners to put forward with peculiar cogency the claim to share through their representatives in the settlement of questions of administration which vitally concern not only their economic prosperity but their health and life itself.

V. Proposals for Reorganization

The problem of reorganizing the coal industry falls into three broad divisions, the ownership of minerals, the ownership and management of mines, and the distribution of coal. The first and third of these need not be discussed at length, since there is substantial agreement with regard to them. All the members of the Coal Commission, including the mine owners, proposed that the ownership of coal should be transferred to the state. All of them, including the mine owners, proposed that the distribution of coal should be undertaken by the local public authorities, with the object of bringing producer and consumer more closely into touch than at present and of eliminating some of the links in the chain of middlemen through whose hands the coal passes. The government has stated, indeed, that it intends to nationalize minerals. It is unfortunate that, before raising the price of coal, it should not have made any attempt to remedy the admitted extravagances of the existing system of distribution.

The crux of the problem, however, consists, of course, of the treatment of the mines. Four ways of handling it appear, in theory at any rate, to be possible. In the first place, an attempt may be made to revert to the conditions which obtained prior to August, 1914, sweeping away public control, putting nothing in its place except some scheme of "Whitley Councils" such as was proposed by the mine owners on the Commission,

and leaving the industry to be conducted by the self-interest of competing owners. In the second place, the present system of control might be continued, without any further change being introduced. In the third place, there are schemes for the unification of the industry in private hands, of which several have from time to time been advanced, the most recent and best known being that proposed by Sir Arthur Duckham. Fourthly, there is the policy of public ownership advanced by Mr. Justice Sankey, which again is compatible with more than one type of administration.

(a) *The Restoration of Private Enterprise*

The first alternative is open to all the criticisms brought by Sir Richard Redmayne against the present organization of the industry. It is not a solution of the problem, but an abandonment of it. Moreover, it is a course which has been made more difficult both by the developments which took place during the war and by the inquiries of the Coal Commission. On the one hand, the wages in the poorer districts have been leveled up, partly by means of the levy on the profits of those which are more prosperous. If that tentative and incomplete system of pooling is now abandoned, those districts, as their representatives impressed on the Commission, will be faced by greater difficulties than ever. A rise in price needed to enable them to pay their way will be a severe burden upon the consumer and will increase the surplus received by the shareholders in the more fortunately-situated collieries. On the other hand, the revelations of the Commission have, not unnaturally, increased the dissatisfaction of the miners. They have seen the industry stripped naked. They have heard their own criticisms sub-

stantiated, with a wealth of illustrative detail, by official experts. They can hardly now be expected to feel any very marked confidence in the wisdom with which it is administered. Obviously, in the absence of some reforms designed to meet the criticisms passed upon it and endorsed both by the chairman and by the three business men, other than mine owners, on the Commission, it is not to be supposed that the miners will throw themselves with enthusiasm into working a system which they believe to have been discredited.

(b) *The Continuance of Control*

Nor is the second alternative much more attractive. No doubt the mere continuance of the present system of government control is a possibility. But does any one really desire it? The mine owners do not; the miners do not either, tho they would prefer it to a reversion to pre-war conditions. The consumer received some protection from it during the war against exorbitant prices. But it may be doubted whether he is in love with an arrangement which apparently is unable to cope with the admitted deficiencies in the present organization of production and distribution. The truth appears to be that, tho necessary as a war measure, mere control has the merits neither of public ownership nor of private enterprise. It eliminates some of the advantages which used to be ascribed to competition, without securing those which (it has been suggested) are offered by co-operation. On the one hand, it removes, at least to some extent, the financial spur to initiative. On the other hand, it neither secures that the equipment of the pits is brought up to date after the inevitable deterioration caused by the war, nor introduces the "collective production" pleaded for by Sir Richard Redmayne,

nor insists upon the adoption of a more economical system of distribution. Not a single one of the reforms emphasized as essential before the Commission more than 12 months ago has, so far as is known, been introduced, and in the meantime prices have more than once been raised. "Control" tends, in short, to be negative and restrictive, when what is needed is something positive and constructive.

(c) *Unification under Private Management*

It is a realization of the difficulties involved in either of these proposals which has led, it is to be presumed, to the various schemes from time to time advanced for ending the individual ownership of mines without putting public ownership in its place. As long ago as 1893, Sir George Elliott, a prominent South Wales mine owner, urged the unification of the industry under public supervision. Sir Richard Redmayne, while declining to commit himself to nationalization, pleaded before the Coal Commission for what he called "collective production." It is understood that the Coal Controller's Department had been so gravely impressed with the necessity for some measure of unification, that even before the appointment of the Commission it had considered the possibility of merging all the existing interests in a single corporation. Sir Arthur Duckham, while expressing himself strongly against nationalization, declared that "the working of over 3,000 collieries by more than 1500 separate interests has resulted in heavy losses of coal and inefficient working," recommended the complete expropriation of the mine owners, and proposed to substitute for the present confusion the amalgamation of the collieries in each district into a single corporation, which would (*a*) be governed by a

board of seven directors, four to be elected by shareholders, two by miners, and one by managers and under-managers; (*b*) be guaranteed a dividend of 4 per cent by the state; (*c*) be allowed to pay 6 per cent, after which any further profits must be allocated in the proportion of two-thirds to reduce the price of coal and one-third to dividends.

Proposals of this general character are being advanced in more than one country and with reference to more than one industry. Sir Arthur Duckham's recommendations bear a family likeness to the Esch-Cummings Railroad Act. These schemes seem, in fact, to be the first reaction caused by the discovery that private enterprise, as hitherto understood, is not functioning as is desired. They possess certain merits. It is probable, for example, that, were the plan recommended by Sir Arthur Duckham adopted, the result would be to eliminate some of the wastes incidental to the present system. On the other hand, they appear to have certain drawbacks which require to be weighed before they are accepted as the best policy practicable. In the first place, it may be doubted whether Sir Arthur Duckham's proposals would remove or even seriously mitigate the whole body of difficulties which arise from friction between the miners and private owners. It might do so, for here again one is handling imponderables. But the miners themselves think it would not; and if it is the case that the essence of their claim is that the workers in the industry, whatever their grade, should be admitted to a partnership with the public, it is at least probable that they are right. More serious, perhaps, is the danger with which schemes of this kind would confront the consumer. What is suggested, is, in effect, the creation of some 15 to 20 gigantic coal corporations under public supervision.

There is considerable experience of the policy of private monopolies working under some system of state regulation. It was that adopted, for example, by British municipalities prior to the development of municipal enterprise in water, gas, trams, and electricity. The drawback to it is that, once these leviathans are brought into existence, they are apt to control the public more effectively than the public controls them, and that they meet attempts to clip their claws by passive obstruction or by some secret arrangement which cannot easily be prevented or exposed.

And after all, what are the advantages of private ownership, when it has been attenuated to the point proposed by Sir Arthur Duckham? Might not the mine owners legitimately meet his substitute for nationalization with the retort, "Thank you for nothing"? Private enterprise has its merits; so also, perhaps, has public ownership. But, by the time Sir Arthur has done with it, not much remains of "the simple and obvious system of natural liberty," while he is precluded from appealing to the motives which are stressed by advocates of nationalization. Private ownership, refined down to the extent which proposals of this order contemplate, carries with it little of what is normally valued in ownership and appears to be singularly devoid of privacy. It is one thing to be an entrepreneur with a world of adventure and unlimited profits — if they can be achieved! — before one. It is quite another to be a director of a coal corporation with a minimum rate of profit which is guaranteed and a maximum which cannot (except to a small extent) be exceeded. Hybrids are apt to be sterile. It may be questioned whether, in drawing the teeth of private capitalism, these schemes do not draw out most of its virtues.

(d) *Nationalization*

The word usually employed to describe proposals such as those advanced by Mr. Justice Sankey is nationalization. It is not a felicitous one. Quite apart from its liability to cut short blameless citizens by inducing premature apoplexy, it has the even more serious defect of confusing under one ambiguous title two problems, between which it is important to distinguish. The first is the problem of ownership; the second is the problem of administration. One cannot, it is true, decide on the former without having reached some provisional conclusion with regard to the latter. But when the question of ownership has been settled, the question of administration still remains for solution. The possible types of organization, if private ownership is terminated, are various, and the practical merits or demerits of nationalization depend largely upon which is selected. To assume, as is too often done in current controversy, that the model to which the organization of any nationalized industry must conform is that of the Post Office, is as reasonable as to regard the United States Steel Corporation or the Standard Oil Company as the grand pattern and exemplar of private enterprise. The truth is that, whether an industry is in public or private hands, it may be organized and managed on one or other of several different methods. Which is most suitable will depend partly upon the technical conditions of the particular industry under consideration, partly upon less easily definable matters of political and social habit and tradition. It would obviously be absurd to suggest the same administrative system for the coal industry as for the railways; nor is it likely that the organization which suited (say)

Prussia would be that best adapted to secure an efficient service in England or America.

These things are of course truisms. It is the more to be regretted that eulogy and criticism have tended during the past year — so low is the plane on which the controversy has been carried on — to be devoted to associations which the mere word "nationalization" awakens in the minds of different writers, instead of to the concrete administrative structure of which it is (or ought to be) the symbol, and which alone matters in practice. "Public service," "economy," "elimination of waste," "professional zeal" — the presence of these virtues will not be secured by public ownership, but only by public ownership so organized as to elicit them. "Red tape," "bureaucracy," "over-centralization," "the government stroke," "the civil service tradition" — these vices *may* accompany public ownership; whether they *will* or not, depends again upon whether the administrative system established is such as to encourage or to repress them. The realization of that elementary truth would be, it may be suggested, the beginning of wisdom, as well as — a not less happy consummation — the end of much eloquence. Unfortunately it appears to be the last to be apprehended. So the critics of nationalization attack it on the ground that state management is necessarily inefficient, and presumably tremble with apprehension whenever they post a letter. And the supporters of nationalization argue that state management is necessarily efficient, and are to be seen praising God whenever they use a telephone. Their arguments are eloquent, ingenious and sometimes even amusing. They have only one trifling defect. They assume as a thing simple and self-evident the type of organization to accompany public ownership, which is precisely the most complex

and important of the questions at issue. They are directed to the denunciation or advocacy of proposals which no one has advanced. One must not be hard on them: it is not reasonable to expect that controversialists should burn their arsenal of literature merely because it is no longer relevant. But neither must we be misled by them. And the truth is that, considered in relation to the scheme for the nationalization of the coal mines, set out in detail by Mr. Justice Sankey, they are as obsolete as the armaments of the Stone Age.

Mr. Justice Sankey's proposals (omitting all details) may be summarized briefly as follows: —

(1) That the state should purchase the collieries (including machinery, plant, buildings, stores, etc.), at a fair value.

(2) That the administration of the industry should be vested in the hands of:

(*a*) A Local Mining Council at each pit, the Council to consist of 10 members 4 elected by ballot of the workers at the pit, 3 appointed by the District Mining Council, together with the managers, under-manager, and commercial manager ex-officio. The manager "shall be responsible for the control, management, direction and safety of the mine." The Local Mining Council "shall meet fortnightly or oftener if need be, to advise the manager on all questions concerning the direction and safety of the mine."

(*b*) A District Mining Council in each district. They shall consist of a chairman and vice-chairman appointed by the Minister of Mines, and 12 other members, of whom 4 shall be elected by ballot of the workers, and 8 shall be appointed by the National Mining Council, as follows: —

4 to represent consumers, 2 the technical side of the industry (e. g., mining engineering), 2 the commercial side (e. g., purchase of material and sale of output.)

This District Mining Council shall have "the main executive responsibility of taking measures to secure the health and safety of the workmen and the production of coal in the District." The description of its powers is important: — "Subject to the direction of the Minister of Mines, the District Mining Council shall manage in its district the entire coal extraction, the regulation of output, the discontinuance of or the opening out of mines, trial sinkings, the control of prices and the basis of wage assessment and the distribution of coal."

(c) A Minister of Mines responsible to Parliament, and a National Mining Council. The Mining Council is to be a large body, a kind of Parliament of the industry, elected from each district on a basis of tonnage. The important part of it is to be a Standing Committee. "The Minister of Mines will be assisted by a Standing Committee of 18 members elected from and by the National Mining Council, who will meet regularly for the purpose of superintending the operations of the District Mining Councils . . . 6 shall represent the workers, 6 shall represent consumers, and 6 the technical and commercial side of the industry."

(3) The industry is to be financially autonomous. "The Treasury shall not be entitled to interfere with or have any control over the appropriation of moneys derived from the industry. The said moneys shall be kept entirely separate and apart from other national

moneys, until the profit accruing from the industry is periodically ascertained and paid into the Exchequer."

(4) What are usually described as "civil service methods" are to have no place in the new service. "It being of vital importance that the Mines Department shall be managed with the freedom of a private business, the present Civil Service system of selection and promotion by lengths of service, of grades of servants, of minuting operations and reports from one servant to another, and of salaries and pensions, shall not apply to the servants attached to the Mines Department."

(5) There shall be complete publicity. "The Minister of Mines shall cause the following statistics to be made public: —

(*a*) The quarterly financial returns from each district.
(*b* The output from each district.
(*c*) The number of persons employed above and below ground.
(*d*) The cost per ton of getting and distributing coal, showing proportion due to wages, material, management, interest, and profit.
(*e*) The amount of coal produced per man per shift.
(*f*) The amount of absenteeism.

VI. The Organization of the Industry under Public Ownership

Whether the acquisition of mines and minerals is financially a sound investment or not depends, in the first place, on the price paid for them. The capital value of the mines on the basis of 10*s*. per ton of average output for the five years 1909–13, which was 270 million tons, would be £135,000,000. This figure was suggested by Dr. Stamp, the Assistant Secretary to

the Board of Inland Revenue, and approximates to the £128,000,000 estimated for the Census of Production. If nine years' purchase of the average profits (£13,000,-000) of the five years preceding the war be taken, a somewhat smaller figure, £117,000,000, is reached. Neither of these estimates includes the capital value of royalties, which was estimated by Sir Richard Redmayne at an equivalent, probably, to something less than either £70,000,000 or £55,570,250, according to the basis of valuation taken. When this further item is included, the sum to be paid would presumably be somewhere about £200,000,000.

The interest on £200,000,000 at 5 per cent would be £10,000,000, to which must be added something less than a quarter of a million as a sinking fund. Quite apart, therefore, from any economies due to unification, the state would retain a surplus consisting of the difference between (say) £10,250,000 and the figure of £19,000,000 which was the average total of profit and royalties together (profits £13,500,000, royalties £6,000,-000) for the five years ending in 1913. Had it owned the mines in 1916, when profits and royalties amounted to £43,800,000, the surplus in that year would have been, not £8,000,000 odd, but £33,500,000. Clearly, pending the investigations of a financial commission, the figures for the future can only be at best approximate. *Prima facie*, however, the purchase of the mines appears to be, from the public point of view, a sound investment. Unless the compensation paid is inflated to a sum out of all proportion to the value of the properties acquired, the state, thanks to its superior credit, will retain a safe margin of profit on the transaction. And in addition, provided the administration is efficient, it will be in a position to reap the considerable economies which are promised by the experts as a

result of substituting a unified system of production and distribution for the "extravagance and waste" of individual ownership.

"Provided the administration is efficient." That, however, is the crux of the whole problem. It is not difficult to see how Mr. Justice Sankey intends that the machinery which he proposes shall work. The function of the National Mining Council would be to deal with the large questions of policy affecting the industry as a whole, for example, finance, the surveying of the coal fields and boring for coal, the total amount of coal to be produced, the organization of an economical and efficient system of distribution, prices and national wages questions, general regulations with regard to health and safety, and the allocation of a fund for housing in mining districts. The District Mining Councils would be responsible for meeting, in accordance with the special conditions of their respective districts, the demands made upon them by the National Mining Council, and for carrying out its general policy. They would carry on the routine administration of their own coal fields, would settle the most efficient way of getting coal in the special circumstances of their various localities, would be responsible for the equipment and output of mines in their areas, would determine where pumping or generating stations should be erected, would appoint managers, would see that each pit supplied the quota that could reasonably be demanded from it, would secure regularity of production, and would be a court of appeal to which questions from individual pits could be referred. The Pit Committees would not relieve the manager of his legal responsibility, which must remain as it is at present. But they would assist him in dealing with questions of discipline, of health and safety, and of output. They would suggest improvements in

methods of working and would point to sources of waste which could be removed. They would, in short, be the organ through which the views of the men in each particular mine found expression, and through which the workers took their share both in the effective discharge of their obligations to the community and in the control of the conditions upon which their own well-being depends.

The distributive side of the industry, which is at present in anarchy, would undergo a corresponding reorganization. The privately owned trucks (roughly 600,000) belonging to some thousand separate collieries and merchants, which are empty for half their lives and hamper the railways with needless shunting, would be pooled in the hands of a public service, and would, of course, be used indifferently for all collieries. Instead of household coal passing through the hands of three or more distributors before it reaches the consumer, the District Mining Councils would arrange to supply the local authorities in the area allotted them with their quota of coal, and the local authorities would distribute it direct to the household consumer. In view of the almost complete helplessness of the ordinary household consumer when confronted with a rise of price in the past, and of the well-known fact that collieries and distributors took advantage of every threatened dispute or cold snap to raise prices against him, there is something cynically comic in the suggestion that he has anything but an immense increase in influence and in power of self-protection to gain from public ownership, accompanied by a scheme of administration such as is suggested above.

This is the intention. What probability, however, is there that it will be realized ? The first rule of candid controversy should be to treat uncertainties as uncer-

tain; and it may be admitted at once that no one can *promise* any given result as the certain outcome of nationalization. Neither can he *promise* it from a continuance of private ownership, which appears, on a good deal of the evidence, to be running down. In the last 30 years, indeed, private ownership would appear to have changed its nature in certain important respects. The concentration of management in the hands of salaried officials, the development of a science of mining engineering, with the growth, also, of a professional spirit and outlook as its natural accompaniment, the rise of a strong Miners' Federation commanding more and more of the loyalty and allegiance of the rank and file and necessarily subtracting them from the owners, the creation of control during the war — all these changes have made "nationalization" and "private ownership" a less sharp antithesis than it was. Behind the formal shell of an outwardly static order, it is possible to discern the germs of a new system of relations. There is a sense, nevertheless, in which all large political and social changes are, and must be "a leap in the dark." Whether it is wise to leap or not cannot be formally demonstrated. It involves an act of judgment on numerous factors which are not susceptible of precise measurement. Among them is the security and comfort of the position hitherto occupied. When the earth is quaking or the roof crumbling, the rash man is not he who leaps but he who does not.

Those who propose a change as considerable as that recommended by Mr. Justice Sankey are under an obligation to show, however, that they have not ignored the dangers, but have estimated them coolly and made provision for avoiding them. The most general criticism brought against public services is that they tend to be overcentralized and top-heavy, to paralyze ini-

tiative and to conceal responsibility, to play for safety and to avoid risks, to hold their own, not by ability, but by the mere weight of obstructiveness, to offer mediocrity the protection of a system in which torpor is organized, and against the leaden inertia of which both the man of creative talent and the consuming public rage in vain. Some of these faults are the defects of all large-scale organizations, whether public or private: one must not expect from an elephant the agility of a flea, or from an army corps the mobility of a guerilla band. If, compared with the village carrier, a railway company and the post office have the defects of their qualities, they also have the qualities of their defects. On the other hand, there is enough truth in the indictment to make any person of caution think twice before increasing the scale of business organization, unless he can see his way to prevent the economies of unification being neutralized by the drawbacks of overcentralization. Both are normally real enough. The problem is to secure as many as possible of the former while admitting as few as possible of the latter. To put it concretely, the facts which faced Mr. Justice Sankey were (*a*) the admitted "waste and extravagance" of individual ownership; (*b*) the improbability that the friction between mine workers and owners, with all its resultant social and economic evils, would be terminated under the present system. His task was to devise an organization which would introduce a more economical system of production and distribution, which would cause the mine workers to throw their weight on the side of efficiency and progress, and which would secure these advantages without dissipating them by submitting the industry to the dangers of bureaucratic paralysis. The problem is, in fact, the familiar one of making a constitution. Mr. Justice Sankey had to draft its fundamentals.

His first solution was a familiar one. It was, in effect, federalism. The word is not used, of course, in any technical sense. But it suggests aptly the difference between nationalization as usually conceived in the past and nationalization as interpreted by Mr. Justice Sankey in terms of a definite constitution. The center of his whole program is the District Mining Council, which is to stand for decentralized administration within the framework of a national system. There is no question of "managing the industry from Whitehall." The characteristics of different coal fields vary so widely that a manager who is competent in one may be almost helpless in another, until he has learned how to deal with its peculiarities. There will be a division of functions and powers between the central authority and district authorities. The former will lay down general rules as to those matters which must necessarily be dealt with on a national basis. The latter will administer the industry within their own districts, and as long as they comply with those rules and supply their quota of coal, they will possess local autonomy and will follow the method of working the pits which they think best suited to local conditions. This plan is in accordance with existing mining practice. It corresponds to the organization of the workers, which has the coal field as its basis and bond of union. It is in line with the spirit and tradition of English local government.

In the second place, Mr. Justice Sankey's report laid considerable emphasis upon the need of avoiding in a nationalized coal industry some of the characteristics which have hitherto attached both to private industry and to state departments. On the one hand, there is to be complete publicity. On the other hand, the methods of the existing civil service in recruiting and promoting

the *personnel,* in departmental routine, in the relation of the departments to the Treasury, are not to be followed as a precedent. The first point is one which should need no emphasis. Publicity with regard to costs and profits is the indispensable foundation of all other reforms, whether individualist or socialist. The reference to the civil service raises were difficult problems. The habit which obtained in England nearly fifty years ago, and which is still perhaps not wholly dead in America, of speaking of a civil servant as a man who is a fool only because he is too incompetent to be a knave, may be dismissed with other common forms of controversy as beneath serious attention. Most observers would agree that the British civil service does the work entrusted to it with a zeal and efficiency not inferior — to put it mildly — to those shown in private industry. But that is only half the issue. The work for which it has hitherto been designed is not the administration of industry, and it is quite reasonable that doubts should be entertained of its efficiency in an unfamiliar field. Granted, however, that the existing services are recruited and trained for work of another kind, is there anything to prevent a new type of service being recruited to handle a new problem? On that point the most impressive evidence submitted to the Coal Industry Commission came from Lord Haldane, who, as Minister of War, had organized a great administrative service. What he said, in effect, was that the public could secure such a *personnel* and such an administrative system as it pleased, provided it would take the trouble to train the former to show the qualities of initiative and responsibility required for the conduct of industry, and to organize the latter in such a way as to give those qualities free play. If, he argued, *esprit de corps,* initiative, professional zeal, can be developed by training in a body of men who are

to become regimental officers, they can be developed equally among men who are to be in charge of collieries. In short, the character of a service is not a fixed quantity. Its *morale* may be high or low. Which it shall be is largely, tho no doubt not wholly, within human control. In the course of the last hundred years, British municipalities have been transformed from the corrupt oligarchies of 1820 to bodies which handle complex questions by means of a numerous, and on the whole, efficient and public-spirited personnel. It is arguable, at least, that, if the same result is desired in industry, the same result can be achieved.

These elements in Mr. Justice Sankey's scheme were intended to meet some of the conventional objections to the policy of public ownership. There was another feature in it, however, which, tho also intended to be a safeguard against bureaucracy, was in reality much more than that, and on the effect of which, indeed, the success of the whole policy to no small extent depends. Behind all the technical defects in the organization of the industry lies a fact of ethics or psychology or human nature, which in significance outweighs them all — the distrust, sharpening to dislike, which it arouses in the minds of a growing number of miners. Behind all proposals for nationalization lies one general question of quite capital importance — what is likely to be the attitude of the mine workers to the new order?

The criticisms of the industry as at present conducted which the Federation's witnesses laid before the Commission were almost unintelligible, it may be suspected, to many of those who heard or read them. That was not the fault of the witnesses, who spoke with admirable candor and lucidity. It was due to the fact that the assumptions from which they started were foreign to the ideas of most business men, and have only gradually

been becoming explicit in the minds of working people. To the former, it normally seems self-evident that the government of industry, involving direction of those working in it, should be vested in the hands of the owners of the capital. Whether the owner be a body of shareholders or (by some evil chance) the state, it is for him to give orders and for the workmen to carry them out. The latter are feeling their way to a view of industry under which "management" will no longer be the exclusive function of the property owner or his agents, and the line between "management" and "labor" will be redrawn. This was the meaning — to give one example — of the statement of the very level-headed and experienced secretary of the Northumberland Miner's Association, that what the mines are really demanding is not merely better conditions, but "freedom" and "responsibility." It would be a mistake to underestimate the significance of these phrases merely because they are vague; phrases not much more precise have made revolutions and are enshrined in famous constitutional documents. What they amount to is something in essence fairly simple. The mine workers — or a determining minority of them — feel that the administration of the industry by the agents of shareholders for the pecuniary gain of shareholders involves the control of their working lives by a comparatively small number of persons for ends and by means with regard to which they are not consulted. They believe that, in virtue of their practical experience, they can make important contributions to the program of their industry, and that these contributions are frequently not welcomed by the management today.

The practical outcome of this point of view was that while one section of opinion—that of the owners—was opposed to centralized and bureaucratic administration

on the ground that it was unfavorable to efficiency, another, that represented by the miners themselves, declared that it would not meet the workers' demand for a higher professional status and a share in the government of the industry. The demand of the Federation was that one-half the membership of the bodies controlling the industry should be chosen by itself. Mr. Justice Sankey proposed that the mine workers should nominate on the District and National Mining Councils one-third of the members, and 10 out of 13 members to the Pit Committees. The precise proportion in which different interests are to be represented is obviously a matter of degree. The significant point is Mr. Justice Sankey's recognition of the demand for a share in "control" as inherently reasonable, and indeed the inevitable result of social and educational changes. He gave it as one capital reason why mere unification, without public ownership, would not meet the situation: "A great change has come over the workers in the coal fields, and it is becoming increasingly difficult to carry on the industry on the old accustomed lines. The relationship between the masters and workers in most of the coal fields of the United Kingdom is, unfortunately, of such a character that it seems impossible to better it under the present system of ownership. Many of the workers think they are working for the capitalist, and a strike becomes a contest between labor and capital. This is much less likely to apply with the state as owner and there is fair reason to expect that the relationship between labor and the community will be an improvement upon the relationship between labor and capital in the coal fields. Half a century of education has produced in the workers in the coal fields far more than a desire for the material advantages of higher wages and shorter hours.

They have now, in many cases and to an ever-increasing extent, a higher ambition of taking their due share and interest in the direction of the industry to the success of which they, too, are contributing."

To some these words will seem absurd, to others prophetic; this is not the place to argue about ultimates. If, however, the machinery of Pit Committees, District Councils and National Mining Councils seem unduly elaborate, it may be pointed out that it must be read as in part an attempt to meet this new demand. It is complex, in fact, only as democracy is usually more complex than an absolute and centralized government. The individual workman will know that the authority responsible for administering the industry consists, in part, of men with the same experience as himself, and that he, by his own suggestions and criticisms, can improve the working conditions and efficiency of his own pit. The organization of which he is a member will no longer be concerned solely with resisting reductions or securing advances. It will form part of the government of the industry, and will thus be in a position to assume, as it cannot now, a professional responsibility for the quality of the service.

The advantages of increased safety, leisure, security of employment, health and comfort, are not the only benefits by which such a change in status will be accompanied. Nor is it only for the sake of the mine workers that such an organization is recommended. Those who advocate it would argue that it is at least as desirable for the sake of the consumer, on whom after all the burden of the present situation ultimately rests. "The truth is," they would say, "that as far as the coal industry is concerned the old régime is breaking down. The discipline upon which it relied to secure efficiency depended, in the last resort, upon the

ability of the management to enforce its will by the threat of dismissal, which meant in effect (tho it may be admitted with reluctance) by an appeal to hunger and fear. Whatever the ethical qualities of that order of relationships, it had at any rate one genuine merit. It worked. Today it is working no longer. It is working no longer because a generation of organization and education has destroyed the psychological foundations which made it possible. That fact may not be susceptible of statistical proof. But it is a fact nevertheless, and the course of wisdom is neither to praise it, nor to denounce it, but to recognize and act upon it. Productive efficiency is indispensable. If it can no longer be secured by one type of discipline, it must be secured by another. The alternative to the discipline imposed till recently with success by the owners is the discipline of professional pride and responsibility imposed by the workers on themselves. If the mine workers are strong enough to enforce negative and defensive restrictions, they must go further and undertake positive obligations. They must occupy the position of partners in a communal enterprise, and have the power needed to discharge the obligations which that position entails." If that interpretation of the present *impasse* contains any elements of truth, it is obviously of some importance. It is for each student of the problem to decide for himself whether it does.

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TAXES ON PROPERTY AND PROPERTY INCREMENTS IN ITALY

SUMMARY

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I. Introductory

For an understanding of Italy's tax program it is necessary to know something of the preliminary stages of the measures finally enacted. By a decree of the Ministry of Finance (July 29, 1919, No. 7532) a commission [1] was appointed to present to the government a plan for an extraordinary tax on property. The only limitations laid down by the government were that the smaller properties were to be exempt and the tax was to weigh more heavily on properties formed and increased in consequence of the war. In August the commission held some ten sessions and reached certain conclusions which a sub-committee was instructed to formulate into a projected law. Toward the end of September the sub-committee presented its plan, which contained two important features: one, an obligatory or forced loan; the other, a tax on the increases of property during the war.

[1] Of this commission the writer of the present article was a member. — *Editors.*

According to the provisions of the proposed forced loan all taxpayers possessing property in excess of 20,000 lire were to make loans to the state. These loans increased progressively as the amount of the property increased. Five per cent of the amount possessed was allotted to properties of 20,000 lire, the percentage increasing until 40 per cent was demanded from those of 100,000,000 lire or more. In return for this compulsory payment the contributor was to receive an equivalent in tax free bonds bearing interest at 1 per cent a year and redeemable within a period of seventy years, beginning January 1, 1920.

The present value of the securities offered, taking the standard of interest of 5 per cent as a basis, was one-third of the face value, i. e., the burden of the tax was about 67 lire for every 100 lire paid. However, the taxpayer was given the option of either contributing the full amount of the assessment and receiving in return the 1 per cent certificates or paying 66.66 per cent of the assessment, once for all, with no promise of reimbursement. Clearly, the forced loan was merely a matter of form. Actually, the plan provided for an extraordinary tax on property equal to two-thirds of the declared rates, while, if the taxpayer were so inclined, he might subscribe voluntarily to the remaining one-third.

The second part of the proposal called for a tax upon the increases of property in excess of 20,000 lire, which had appeared during the war period. To secure ease of administration, such increases were considered equal to the war profits obtained between August 1, 1914 and December 31, 1919. The tax was to apply not only to the profits derived from manufactures, commerce, and brokerage business — incomes which had been subject to the war profits tax — but to increased income from other sources such as the professions, cultivation of land

by the owner and the like, which had not been subject to the war tax. Only the excess beyond ordinary income was to be considered a taxable increase, and in no case was the increase to be taxed unless it amounted to 20,000 lire. Provision was made for numerous exemptions, and detailed rules were given for the calculation of war profits. Upon the increases finally ascertained the same schedule of rates was to apply that held in the extraordinary tax on property — 5 per cent to 40 per cent for increases ranging from 20,000 lire to 100,000,000 lire.

The two taxes were not exclusive. One who had accumulated a fortune during the war period would be subject both to the tax on property and the tax on the increase of property.

Both of the taxes were due on January 1, 1920, but provision was made for payment in installments. The forced loan might be met by from 4 to 8 annual payments, the larger number being governed by the proportion real estate bore to the entire property. In very exceptional cases payment might be extended over 12 annual installments. The tax on the increase of property could be paid in 3 annual installments. In both cases simple interest at 5 per cent a year was required. The relatively short period over which the two taxes were distributed gave them the appearance of a levy on capital.

A number of methods were presented to secure complete valuations. Taxpayers were required to declare, under oath, their entire property and, in addition, the Finance Department was given the right to fix a presumptive value, based on external indications such as the amount of house rent, the number of servants, the possession of jewels and so on. Authority was provided for the official valuation of land and buildings. But the

characteristic feature of the plan was the method adopted to ensure the full declaration of bearer certificates. These securities promised to be a serious stumbling block because of the ease with which they could be concealed. It was proposed that they should be taxed at the highest rate, 40 per cent, irrespective of the fortune of the taxpayers. In this way, it was thought, a method had been found which would induce the transfer of such securities to the registered form. If the transfer were made, only that rate would be exacted, presumably less than 40 per cent, which was applicable to the property really possessed. This discriminating rate was to be collected from the body issuing the securities, the province, commune or company recouping itself from the owner.

By the end of September, 1919, the main features of the plan were generally known to the public. Great opposition was shown, founded especially on the disturbance which the taxes would cause in dealings in transferable securities, and on the difficulties which owners of land and buildings would encounter if obliged to resort to forced sales. The 40 per cent tax on bearer certificates, to be collected from the issuing body also aroused fears, altho perhaps not well founded. Finally, the financial authorities faced a difficult problem in the administration of the tax on the increase of property in determining and verifying the incomes declared by those not reached by the tax on war profits, especially for the earlier years of the war.

For these reasons the government decided to split the original plan into four parts; each independent of the others. (1) A decree of November 24, 1919, No. 2168, ordered the issuing of a voluntary loan at 5 per cent at the price of 87.50 lire. This loan had great success. While the first war loan (1915, 4½ per cent) had furnished the

state the sum of 1,000,000,000 lire, the second (1915, 4½ per cent) the sum of 1,145,900,000 lire, the third (1916, 5 per cent) 3,018,100,000 lire, the fourth (1917, 5 per cent) 3,798,500,000 lire, the fifth (1918, 5 per cent) 6,089,100,000 lire, the sixth brought in 20,000,000,000 lire, or more than all the other five combined.

(2) An extraordinary tax on property, regulated by the decree of November 24, 1919.

(3) A tax on the increase of property obtained on account of the war, regulated by the decree of November 24, 1919.

(4) An extraordinary tax on dividends, interest, or premiums paid on bearer certificates, regulated by the decree November 24, 1919.

It may be as well to say at once that the second, third and fourth of these provisions have been superseded recently by new decrees, dated April 22, 1920. The decrees of April 22, 1920 made important modifications in the decrees of November 24, 1919, and was, in a measure, a return to the original plan of September, 1919.

II. The Tax on Increments of Property

The provisions of the decrees of April 22, 1920 are in force today. But it is worth while to indicate the fundamental ideas that inspired the legislator in those of November 24, 1919, and especially the points where the later decrees differ from the original plan of September, 1919, and from the decrees of April 22, 1920, which have taken their place. I shall begin by explaining in a few words the tax on the increases of property, which on the whole preserves the original form even after the modifying decree of April 22.

The plan of September, 1919 had given up, as a desperate undertaking, the idea of finding the difference

between the two properties in existence on August 1, 1914, and December 31, 1919, but it ordered that an account should be made of the profits obtained beyond the ordinary income on the two dates, not only by manufacturers, business men, brokers, already subjected to the tax on excessive war profits, but also those obtained by land owners who cultivated their own land, and by professional men. These two undertakings, however, seemed to the Financial Administration too difficult to be carried out after so great an interval of time, when it would be difficult to secure proof regarding the earnings. The result was that the decree of November 24, 1919 regarded as an increase of property, the excess profits obtained by business men, manufacturers and brokers; those excess profits, namely, already subject to the tax on war profits which in Italy was established in 1915, as was done in almost all the other belligerent states. Consequently the tax on increases of property amounts to nothing more than a surtax upon those excesses of income which had already been subjected to the tax on war profits. The task of the Financial Administration was thus simplified, in as much as the information already obtained for the purpose of fixing the tax on war profits is used without modification for the new tax on increases of property. All that has to be done is to take the amount of the excess of income already ascertained in the course of the taxation of war profits, to subtract from it the tax and surtax already paid on war profits, all other taxes and public burdens that had not been taken out before, and the amounts which the taxpayer can show that he has used for charities, for civic benefits, education and other works of a public character. What is left over is the taxable increase of property.

Occasionally some addition can be made to this when,

in the case of any taxpayer, the Financial Administration discovers that his property has been increased after August 1, 1914, by the acquisition of lands, houses, securities or other property, and there is reason to infer that this increase is derived from earnings obtained through manufactures, business or brokerage. The increase of property thus ascertained is not taxable till it reaches the sum of 20,000 lire, or such larger sum as is equivalent to 5 per cent of the original property of the taxpayer; the original property is regarded as that which, for the purpose of imposing the tax on war profits had been regarded as capital invested for the first period of verification, 1914–15. If the taxpayer in that first period was not engaged in manufactures, or business, or brokerage, the amount of invested capital ascertained at the following verification is regarded as original property.

The excess beyond 20,000 lire, or beyond the larger figure equal to 5 per cent of the original property, constitutes the taxable increase of property. For manufacturers and business men the increase was taxable, according to the decree of November 24, 1919, on a scale ranging from 10 to 60 per cent. The decree of April 22, 1920, increased the rates from 10 to 80 per cent on the following scale:

10%	on the portion of increase exceeding	5 but not exceeding 10%	of the property of the taxpayer
20%	" "	10 " " 20%	" " "
30%	" "	20 " " 30%	" " "
40%	" "	30 " " 40%	" " "
50%	" "	40 " " 50%	" " "
60%	" "	50 " " 60%	" " "
70%	" "	60 " " 70%	" " "
80%	" "	70%	" " "

The increases of property obtained by brokers could not be estimated by comparing them with an original

property, because in the greater number of cases brokers need no capital to carry on their business. Consequently that increase is exempt which, in the sum total of the years between August 1, 1914 and December 31, 1919, does not exceed 20,000 lire, or the larger sum equal to $\frac{5}{10}$ of the ordinary income secured by the broker before the war. The rest is considered taxable increase of property, and to it, according to the decree of November 24, 1919, was applicable a progressive scale of from 10 to 60 per cent. The decree of April 22, 1920, increased for brokers the maximum of the rates to 80 per cent as follows:

10%	on the amount of increase exceeding		5/10ths	but not		10/10ths	of ordinary income
20%	"	"	10/10	"	"	20/10	" "
30%	"	"	20/10	"	"	30/10	" "
40%	"	"	30/10	"	"	40/10	" "
50%	"	"	40/10	"	"	50/10	" "
60%	"	"	50/10	"	"	60/10	" "
70%	"	"	60/10	"	"	70/10	" "
80%	"	"	70/10	"	"	70/10	" "

By way of example, let us suppose a manufacturer who had in the first period an invested capital of 1,500,000 lire. This is regarded as his original property. According to the law on the taxation of war profits, the ordinary income on the capital invested is set at 8 per cent, which in this case makes 120,000 lire a year. Let us suppose that he earned in the period 1914–15, 250,000 lire; in 1916, 200,000 lire; in 1917, 320,000 lire; in 1918, 340,000 lire; in 1919, 440,000 lire; for the whole period of the war the manufacturer earned a total of 1,750,000 lire. From this sum we must subtract the ordinary return of 8 per cent on the invested capital, namely, 170,000 lire for the seventeen months of the first period, and 120,000 lire for each of the subsequent periods; 650,000 lire in all. This is the income which is

subject to the ordinary tax, that on personal property; a tax which during the war kept increasing from 12 per cent to nearly 20 per cent. The remaining sum of 1,100,000 lire constitutes what, in our statutory language, is war profits.

These profits were in any event subject to the tax on war profits, established as early as 1915, and arranged on a progressive scale, from 10 to 60 per cent. In order not to complicate the account too much let us suppose that this tax and the tax on personal property deprived the taxpayer of a third of the sum just mentioned. The taxpayer has therefore paid already 366,000 lire in taxes; there remain 733,000 lire. From this we may subtract say 33,000 lire, which the taxpayer may have proved he spent in benevolences, civic benefits, education and other public objects during the period of the war. The remainder, 700,000 lire, constitutes finally the taxable increase of property.

According to the decree of April 22, 1920, this increase of 700,000 lire is divided into the following fractions:

The first fraction of 5 per cent on the original property of 1,500,000 lire, namely 75,000 lire, is exempt from taxation. On the next

5%	amounting to	75,000	the tax is	10%,	equal to	7,500
10%	"	" 75,000	" " "	20%	"	" 15,000
10%	"	" 75,000	" " "	30%	"	" 22,500
10%	"	" 75,000	" " "	40%	"	" 30,000
10%	"	" 75,000	" " "	50%	"	" 37,500
10%	"	" 75,000	" " "	60%	"	" 45,000
10%	"	" 75,000	" " "	70%	"	" 52,500
for the remainder amounting to		100,000	" " "	80%	"	" 80,000
					Total	290,000 lire

In all therefore the taxpayer pays a tax of 290,000 lire on the 700,000 lire of increase of property.

This example may be considered as an average between the lighter and the heavier burdens of taxation which result from the method adopted.

The tendency of the whole arrangement obviously is to call on the taxpayer the more heavily if his invested capital is small, and more lightly, when the capital invested is large. This brings about the injustice, observable in the legislation of other countries also: enterprises depending above all on the energy and enterprise of the individual manufacturers and business men are overtaxed, while those which at the beginning had a large investment in the plant, and which before the war obtained mediocre results or were even losing money in relation to this large capital, are undertaxed. We may add that while, in the Italian tax on war profits, every transaction is considered by itself, and consequently the percentage of taxation tends to become less in those cases in which the capital invested was increased in successive transactions, on the other hand in this tax on the *increases* of property the original property is always fixed; equal, that is, to the capital invested in the first taxation period. It makes no difference therefore if the taxpayer who had an original invested capital of 1,500,000 has increased it to 5,000,000 or 10,000,000; the sum of profits obtained is always compared with the original capital of 1,500,000 lire in applying the rates of the tax.

That is doubtless a mistake; but it is clear that the legislator's object was mainly to establish a tax that could be applied at once and without trouble, by merely turning to the excess profits already ascertained for the purpose of the war profits tax, subtracting from them the various taxes and public burdens already paid, and levying on the residue.

If by this means a quick application of the tax was obtained, the requirements of justice for the taxpayer

were not satisfied. Complaints will be made by many taxpayers, especially small ones. Popular opinion will continue to insist that the Finance Department is incapable of properly taxing the war profits. The general public, which pays little attention to legislative technicalities, cannot understand the reasons for taxation on the basis of per cents on the capital invested and on the original property. It looks upon fortunes as a whole and wishes that those who have made little should be taxed lightly and those who have made much should be taxed heavily.

It should be noted finally that the tax on the increases of property, like that on the excess profits of war, to which it is a mere addition, has no personal character. It does not fall upon individual taxpayers but on enterprises that produce income. It does not regard the increase in property obtained by individuals, but that obtained by manufacturers, merchants and brokers. Therefore if a business man carries on his business alone, he is taxed on the increase in property which he has really gained. On the other hand, if a business is conducted by a joint stock company, it is the company that pays the tax and not the partners. Hence it will happen that the holder of a small part of the capital of a corporation, whose property may be increased by a very small sum, may have to pay the same percentage as one who owns a great part of the capital. This is a defect common to several acts of legislation regarding the taxation of the excessive war profits.

III. The Tax on Property according to the Plan of November, 1919

We come now to the more important tax, the extraordinary tax on property properly so called.

The decree of November 24 differed from the plan of September, 1919, in that it substituted for an extraordinary tax, paid once for all on January 1, 1920, or distributed for convenience in payment over 4, 6, or 8 years, a wholly different tax, to which the term extraordinary could not properly be applied.

In reality it was made a matter of annual taxes continuing for thirty years, payable at progressive rates ranging from 0.167 per cent for properties of 20,000 lire to 0.833 per cent for properties of 100,000,000 lire and more. In substance it was a permanent, supplementary tax on property, which performed the same function as that which taxes on property (*Ergänzungssteuern*) had exercised, even before the war, in most of the German states. The supplementary tax on income instituted at the same time (November 24, 1919, to take effect on January 1, 1921) applied, in theory, to all income of the taxpayer, without making a difference between the portion of the income that was derived from capital and the portion derived from labor; and the tax on property proposed in November, was virtually a permanent readjustment of the income tax, having for its object the imposition of an additional burden of taxation on incomes derived from capital. It is true that Article 29 of the decree of November 24 said that the tax was extraordinary and due once only, in the ratio of 5 per cent for properties of 20,000 lire up to 25 per cent for properties of 100,000,000 lire and more. But as the rate, tho

nominally single, was divided into thirty equal annual payments, without the addition of interest for the postponement, what was really proposed was the imposition of a permanent extraordinary tax, payable from the income of the property. It was very doubtful if a tax thus arranged would really end at the close of the thirtieth year. This was a mere promise, like so many others made by legislators when a tax is introduced for the first time.

The only trace of "extraordinary" character in the tax on property of November 24, was a vague promise made in Article 46, announcing a future decree, to be issued by the Minister of Finance, to authorize the redemption of the tax on property. But the article itself limited the redemption to each of the four periods of 6, 8, 8 and 8 years into which the thirty year period was divided. The taxpayer therefore did not have the choice of paying once for all the amount of the tax on property for the thirty years, as would have been logical if the tax had really had the character of an extraordinary levy on capital, but had only a power of redemption restricted to each one of the four periods. So that the taxpayer might in the first year redeem (pay in full) the tax for the first six years, in the seventh year the tax due for the second period of eight years, and so for the succeeding periods.

Those who fought for the establishment of an extraordinary tax on property criticized severely the decree of November 24, 1919, as soon as it was made public, asserting that the tax established by this decree was wholly different from that which the government had announced before. The present writer never favored a levy on capital, properly so called, and therefore cannot agree with the criticisms made on the decree of November 24, on this subject. What seemed a defect to the

critics, was in reality a good feature. Tho the immediate returns from the tax might be smaller, the final and permanent returns would in the long run become important; and the establishment of an integral tax on property is necessary in the new system of taxation in which, in addition to the differentiated taxes, a tax is established on the total income of the tax payer, with no distinction on account of the nature of the income.

IV. The Tax on Property in its Present Form

General Characteristics

Altho the criticisms made against the plan of November 24 were of little weight, they finally became so strong that the Italian government was obliged to modify the system first established, even before it went into effect. In the decree of April 22, 1920, the basis of taxation was changed in a marked manner, reverting in part to the original idea of the plan of September, 1919, of an extraordinary tax on property possessed by the taxpayer on January 1, 1920. Let us now examine the arrangements of this decree, which, at the moment that I am writing, is the basis of taxation.

The tax then has become again a true extraordinary tax to be levied on property, which has been valued once for all on January 1, 1920. With the object of making the payment easier for the taxpayers, the amount of the tax is divided regularly into 20 annual payments, as may be seen in the following table. On account of strong complaints by the most influential political parties, the exempt limit was raised from 20,000 lire to 50,000 lire.

The amount of the tax (to be paid within twenty years) is determined on the basis of the following scale:

On	50,000	lire,	4.50%	in all, at the rate of	0.225%	a year
"	100,000	"	5.61%	" " " " " "	0.280%	" "
"	200,000	"	6.98%	" " " " " "	0.349%	" "
"	500,000	"	9.33%	" " " " " "	0.467%	" "
"	1,000,000	"	11.62%	" " " " " "	0.581%	" "
"	2,000,000	"	14.48%	" " " " " "	0.724%	" "
"	5,000,000	"	19.36%	" " " " " "	0.968%	" "
"	10,000,000	"	24.11%	" " " " " "	1.205%	" "
"	20,000,000	"	30.03%	" " " " " "	1.501%	" "
"	50,000,000	"	40.14%	" " " " " "	2.007%	" "
"	100,000,000	" and more,	50%,	" " " " " "	2.500%	" "

For properties between 50,000 and 100,000 lire, that are taxable, fractions of a thousand lire up to 500 lire inclusive are neglected; those above 500 lire are rounded out to 1,000 lire. In like manner for those higher than 100,000 and up to 200,000 lire, the rounding process is by units of 2,000 lire:

Above	200,000	to	500,000	by units of	5,000
"	500,000	"	1,000,000	" " "	10,000
"	1,000,000	"	2,000,000	" " "	20,000
"	2,000,000	"	5,000,000	" " "	50,000
"	5,000,000	"	10,000,000	" " "	100,000
"	10,000,000	"	20,000,000	" " "	200,000
"	20,000,000	"	50,000,000	" " "	500,000
"	50,000,000			" " "	1,000,000

In explanation of the scale of the tax, it should be said that the properties indicated above are used merely as examples. The government has published a table covering each intermediate property, between the figures used above, taking into account likewise the roundings off.

The ratios falling on intermediate properties have been calculated according to the formula given; so that the increases in the scale of ratios appear without noticeable leaps. From the technical point of view the system adopted is good, and represents a notable improvement when compared with other methods of graduating taxes.

At first sight the substitution of twenty for thirty years does not seem to transform the permanent tax on property of the decree of the 24th of November into a true extraordinary tax or levy on capital; but that there is a real alteration in that direction is deduced from several considerations:

1. The twenty year period is that ordinarily imposed. But if it turns out that the property consists, to the extent of at least 60 per cent, of personal property, the tax must be paid within ten years instead of twenty, the taxpayer being allowed interest at 5 per cent. Thus there will be two classes of taxpayers; those whose property consists chiefly of lands and houses, who will pay in twenty years, and this on account of the greater difficulty of disposing of their lands and houses; and those whose property chiefly consists of personalty (public securities, shares and bonds of companies, merchandise, credits) who are obliged to pay the tax within ten years;

2. There is no longer any revision of properties or distinction of periods. The basis of taxation is fixed for the entire period of twenty years, and that basis is the property on January 1, 1920. Consequently, if a taxpayer should die, his heirs will continue to pay a proportionate part of the tax of the deceased, and there will be no addition of the sum inherited to the properties of the heirs;

3. As the taxable basis remains fixed, the tax may be redeemed, and Article 46 distinctly authorizes redemption, crediting the taxpayer with compound interest at the rate of 6 per cent a year for the number of years for which payment is anticipated.

The redemption of the tax may take place at once, or at any moment in the periods of twenty or of ten years.

Subject and Object of the Tax

In principle the tax is payable by individuals and by collective bodies. But the taxation of corporations, commercial societies, and other bodies takes place only in those cases where the property cannot be divided among the shareholders or other participants. Thus for example the tax does not apply to societies having shares, but instead the shareholders are subject to it for the shares that they possess. Partnerships and the like must also declare their property, but only with the object of informing the financial authorities of the value of the individual amounts belonging to the partners, each one of whom will be taxed separately. The society or partnership is obliged to pay the tax only when the individual has become insolvent. Exempt from the tax are all public bodies: the Italian state, the administrations dependent on the state, foreign states, the provinces, the communes and municipalities, consortiums and other public organizations, charitable and educational institutions. A few collective bodies, like savings banks and agricultural banks are subject to direct taxation. It would have been impossible to apply to these the progressive ratio explained above, inasmuch as the taxpayer lacks the characteristic of a person enjoying an income; therefore the tax was fixed at the rate of 0.80 per cent a year for twenty years. The same plan (except that the rate, 1.20 per cent a year, is greater) applies to foreign societies operating in Italy as regards that portion of their property that cannot be allocated among the individual partners or shareholders of the society.

The payers of the extraordinary tax on property are exclusively individuals. The tax, in contradistinction to that imposed at the same time by the income tax falls

upon the individual and not upon families; i. e., the property of the husband is not added to that of the wife. On the other hand, that of parents and other ascendants is added to that of sons and of descendants, but only when the sons and the descendants live together with their parents and have in common with them labor and the enjoyment of property; and further, for that part only of the property of the children or descendants which has been given or sold to these, after August 1, 1914, by the parents or ascendants themselves. The children are taxed personally and separately for whatever property they may have received by inheritance or gift from other persons, and for that which they have accumulated by their own earnings. The dowry of the wife is considered as a part of the property of the wife herself and is taxed separately from the property of the husband.

There is a difference in the taxation of citizens and of foreigners. The citizen owes taxes on all his property situated within the state, and also on all property situated outside the state which has been acquired by him since August 1, 1914. The Italian citizen is exempt, whether he dwells in Italy or in foreign parts, on that portion of his property which consists of property possessed in foreign countries before the outbreak of the European war. The reasons for this exemption are, in the first place, not to interfere with Italian emigration to foreign lands; and, in the second place, the very great difficulty which the financial authorities would have had in finding out what the properties outside of the state amounted to.

But property possessed by the citizen in foreign lands is subject to the tax, if acquired after the outbreak of the war. Italian citizens residing in foreign lands enjoy a further exemption, namely, on the remittances which

they, as emigrants, had sent to Italy, depositing them in banks and postal savings banks, or investing them in Italian War Loans for which they had subscribed abroad. It should be noted that in the property existing outside of the state, foreign securities possessed by a citizen residing within the kingdom are not included. These foreign securities, by a presumption of law, are considered as being held within the state, when owned by a citizen dwelling within the kingdom; they are therefore subject to the tax, even if they were owned before August 1, 1914.

The foreigner, on the other hand, in principle is taxed exclusively on property situated within the state. Exception to this rule is made as regards Italian War Loans subscribed for by foreigners not residents of Italy. These are not subject to tax; neither are foreign securities subject to tax, if they are possessed by a foreigner dwelling within the kingdom; nor is floating capital which is foreign or comes from foreign lands and which on January 1, 1920 was deposited in institutions of credit and postal savings banks.

To the principle of the universality of taxation there are the following further exceptions:

1. Capital sums corresponding to life or temporary incomes, or those owed by organizations established for protection against sickness, old age and disability, are not regarded as taxable elements in property. In reality a life annuity has a present value, and should be taken into account in determining the amount of the property; but these were exempted from the tax because enjoyed in the great majority of cases by people in moderate circumstances. Similarly the redemption value of the sums for which a man's life is insured is exempt from the tax. It happens therefore, in the case of two professional men who have saved the same sum of

money, one of whom has invested it in lands, houses, and securities, while the other has bought a life insurance, that the first is subject to the tax while the second is exempt. The only argument in justification is that in Italy the average of the sums for which life is insured is very low, and that in most cases the insured taxpayers do not possess property amounting in all to 50,000 lire.

2. Churches and all buildings intended for religious purposes, with the furniture, sacred utensils and any other object relating to the church.

3. Scientific collections, libraries, collections of paintings, statues, porcelains, engravings, coins, medals and similar objects.

This last exemption, however, does not apply to merchants who possess books, or pictures, or statues with the intention of trading in them. The exemption also does not apply to taxpayers who may be presumed to have acquired their collection through profits made during the war period. Not exempt are collections of gems, jewels, gold and silver vessels and utensils, intended for private use.

Valuation

The two chief difficulties found in Italy in the taxation of property are those arising from the valuation of lands and of buildings, and those involved in establishing the ownership of bearer certificates. As regards lands and buildings there is no difficulty in ascertaining ownership, because the several proprietors are known already from the registers of the taxes on lands and on buildings. Great difficulty is found however in the valuation of the lands and the buildings. If the obligation had been put on all owners of lands and buildings to declare their market value, it would have been necessary to control these declarations; the Finance Department would have been

obliged to set up a system of estimates. The experience gained under the law of March 1, 1886, for the equalization of the land tax, proved this to be a very costly and complicated task. Several years would have to pass before the estimates of the value of land and of buildings could be made, and in the interval it would be impossible to collect the tax. For these reasons the decree of April 22, 1920, distinguishes between a provisional and an ultimate valuation. The provisional valuation, to be made at once, is based entirely on empirical data. The capital value of a farm is obtained by multiplying the chief tax paid to the state in 1916 by the fixed coefficient 325. The capital value of buildings is also obtained by multiplying by a fixed coefficient (25) the taxable income ascertained in 1919 for the purpose of the building tax. In the greater part of Italy this empirical method will bring about valuations markedly below the true valuation, especially in the case of land. It is to be hoped that the Financial Administration, as is prescribed by Article 10, may carry out the ultimate valuation within five years, that is to say, by December 31, 1924. This final valuation is to be made according to the method proposed in the plan of September, 1919, namely, capitalization at the rate of 100 to 5 of the net income. Exceptions are made only in case of forests, areas that can be built on, buildings in the course of construction, castles and villas; for all of which, instead, the market value on January 1, 1920, is taken as the basis of taxation. The valuation of farms will not include the value of the agricultural equipment (animals for working and for rearing, agricultural machinery, hay, straw, seed) which are valued at the market value they had at the beginning of the agricultural year 1919–20.

For industrial and commercial enterprises the same method is applied as for lands and buildings, namely,

capitalization of the net income; but while the net income of lands and buildings is capitalized at the ratio of 100 to 5, the net income of industrial and commercial enterprises is capitalized at ratios ranging between 100 to 10 and 100 to 30. The valuation will approach closer to the minimum when the element of labor is predominant in the enterprise, and will approach closer to the maximum when the element of capital is the more important.

In all industrial and commercial undertakings the criterion of capitalization is merely one of those which may be taken into account for the valuation of the capital; another criterion is that of the capital invested, already ascertained for the purpose of the tax on war profits. As the tax on war profits fell on profits exceeding 8 per cent of the capital invested, it was for the interest of the taxpayers in the past years to declare the whole amount of capital invested, for the purpose of diminishing as much as was possible the percentage of their earning in proportion to the capital. Now they suffer, as it were, a penalty for the claim made before; because the more they tried to increase the figures of capital invested, so as to pay a lesser tax on war profits, so much the more will they be burdened by the tax on property.

For securities consisting of certificates of loans to the state, of Treasury bonds, of loan certificates issued by provinces, communes, or land credit societies, the difficulty lies not in the valuation but in ascertaining the ownership, at least as regards bearer certificates. With regard to valuation it is simply provided that, for securities issued or guaranteed by the state, the average of the prices paid in the first six months of 1919 shall be considered the basis. For private securities, the average of the prices paid in the exchanges in the six months from

April to September, 1919 is taken. As regards securities not quoted on the exchanges, the price obtained at any sale that is known to have taken place in the same six months is taken into account, as well as any other means of ascertaining the value. For foreign securities held by an Italian citizen, he must declare the value which he assigns to them, but the Administration has the right to call for them at that price up to the amount of the tax due.

There are no unsurmountable difficulties in the valuation of securities; the real and great difficulty lies in finding who are the possessors of bearer certificates.

The plan of September, 1919, had attempted to solve the problem by subjecting bearer certificates to the maximum rate of 40 per cent, so as to give a direct interest to holders of the securities to convert them into certificates registered in the holder's name; thus they would be exempt from the tax, if the property was less than 20,000 lire, and would pay the regular increasing ratio from 5 per cent to 40 per cent, if the property was between 20,000 and 100,000,000 lire.

More effective proved to be another method contained in the decree of November, 1919 which utilized an already existing tax on dividends, interests, and the like. As modified in 1918, this tax had exacted 2 per cent from these dividends and interests, whether on bearer certificates or registered; it made no distinction between the two classes of securities. The tax itself, having the character of an extraordinary war tax, was limited to incomes returned from the balances closed in 1919. The decree of November, 1919, extended the tax to the years following 1919, but changed its character greatly, inasmuch as, beginning with the balances closed after November 24, 1919, it increased the tax from 2 per cent to 5 per cent, limiting it at the same time to the

dividends, interests, and premiums on bearer certificates and exempting those registered. Clearly it was for the interest of all taxpayers possessing a moderate property to register their securities under their names, in order not to pay this tax of 5 per cent; thereby giving the Finance Department the means of ascertaining their property exactly, for the purposes of the tax on property. The motive to register was increased also by the decree of April, 1920, which finally raised the tax from 5 per cent to 15 per cent. As the public bodies and companies issuing the securities are obliged to recoup themselves for this 15 per cent tax on the holders of the securities, and as there is in Italy another tax, called "*di negoziazione*" which subjects the effective capital of securities registered by name to a levy of 2 in a thousand, while the rate for bearer certificates is 3.50 per thousand, those who have their securities in the bearer form are subject to a double differential tax. This double burden is not substituted for that on property, inasmuch as the obligation to pay the special tax of 15 per cent on income and 1.5 per cent additional on capital for bearer certificates may be called optional; only those have to pay it who cling to their bearer certificates. This tax gives a strong impetus to the transformation of securities into the registered form, and therefore into an exact declaration of the amount of property subject to the property tax.

Allowance for Debts

Logically property subject to tax is not the gross property or sum of all the assets belonging to the taxpayer, but is equal to this less the sum of the debts. The taxpayer has the right to deduct the amount of all his debts. There are some exceptions to this rule; for example, indebtedness on such property as is not

taken into account in making up the gross property. Thus, as the taxpayer does not have to include among his assets the amount of the present value of his life insurance, he cannot include among his debts the amount of the loan he may have obtained on the security of his life policy. Likewise debts to creditors who are unknown, or dwell outside the state, cannot be deducted; this is to prevent fraud through the declaration of fictitious indebtedness. Still when a debt to a foreigner is verified, the taxpayer will have the right to deduct it from his property, but the debt itself will be regarded as property by itself; the tax will be put down in the name of the debtor, but he will have the right to recoup himself on the foreign creditor. In case the creditor does not admit the taxpayer's declared indebtedness to him, the subtraction from the debtor's property is not allowed; on the other hand the judicial record of the debt is treated as non-existent, even between the two interested parties, and proof to the contrary is not admitted.

In the deductible indebtedness are included the capitalized value of perpetual annuities and emphitheutic obligations as well as capital corresponding to temporary and life incomes, although these are not included among the assets of the creditor; deductible also are the imposts and taxes which the taxpayer had to meet on January 1, 1920, chief among which are those on excess war profits and increases in property. For the first, in very many cases, the liquidation for 1917, 1918, and 1919 has not yet been made; for the second no liquidation at all had been made when the law taxing property went into effect; thus, the taxpayer has the right to deduct from his gross property the amount, which may be large, of these two taxes.

Presumptive Valuations

Having determined the net property of the taxpayer, and subtracted all the debits that belong to it, a presumptive addition must now be made. It seemed difficult to value exactly all house furnishings and jewelry, as well as the money or cash in hand possessed by the taxpayers. The decree of April 22, as well as the preceding one, orders that a supplement of 5 per cent shall be added to the net property of the taxpayer to represent house furnishings, silver and jewels, and one of 1 per cent representing cash. The two percentages, however, are only a minimum, and the taxpayer must declare any larger sum he may possess in cash, while the Financial Administration, if it has sufficient evidence, may increase the valuation of the house furnishings. For a foreigner, domiciled in a foreign land, the ratio for house furnishings is only added in case he really possesses furniture; in that case the value is presumed to be 3 per cent of the amount of the net property.

A provision not contained in the decree of November 24, 1919, but derived from a like arrangement in the plan of September, 1919, is found in the decree of April 22, 1920: it may be called valuation on appearances. It may happen that a taxpayer declares a property smaller than would be logically presumed to be possessed by him, taking into account his manner of life and his known expenses. For example: a taxpayer has declared a property of only 100,000 lire, and the Financial Administration cannot discover that he has any larger property by the method of ascertaining his individual property assets. Yet it is evident that the taxpayer pays a rent much higher than would be reasonable on the basis of his declared property; it is evident that he leads an expensive life, has several servants, hires auto-

mobiles, and spends sums much higher than warranted by the property he has declared; nor does it appear on the other hand that he has a professional income that enables him to lead a luxurious life. The Financial Administration may then assume, in virtue of Article 29, that the taxpayer's property is larger than he has declared. It is for the courts to decide what the real property of the taxpayer is.

Declaration, Procedure, Payment, and Redemption

The decree of April 22 establishes, as a foundation of the whole procedure, the obligation of the taxpayer, or whoever represents him, to declare the amount of his property by May 31, 1920. The obligation to make a declaration regarding personal incomes and buildings was familiar to Italy from the time of the first fundamental laws of 1864 and 1865. But it had fallen into disuse; for many years no Italian taxpayer had made a declaration of income of his own accord. They always waited for the financial authorities to make an assessment, and then accepted this or contested it. If, some years ago, a revenue official had seen a taxpayer enter his office to present an income return of his own accord he would have considered him a lunatic, or at least an eccentric who observed the law when nobody dreamed of asking him to observe it. It was the world war which again introduced into our country the institution of the declaration. Taxpayers subject to the tax on excess war profits were obliged to present a declaration. At first, few believed that the financial authorities were in earnest; but after fines were inflicted on those who did not comply, little by little the habit of making declarations was reëstablished. This obligation is restricted to a limited category of persons, namely, manufacturers,

merchants and brokers, subject to the tax on excess profits. Now the obligation is put on all who possess a property of at least 50,000 lire; a rather extensive class of persons. It is calculated that in the great cities of the north, such as Turin and Milan, about 4 per cent of the population presented the schedule with a declaration of their property. The work of revising the declaration made by the taxpayers is carried out by the Financial Administration. The taxpayer has the right of appealing from the valuation as revised, according to the procedure established for the tax on incomes from personal property.

Both the Administration and the judicial authorities have the right to place the taxpayer on oath regarding the truth of his declaration. The oath is not obligatory: it may be passed over by the Administration in the cases where it assumes that the taxpayer has declared the truth. The oath does not apply to the valuation of the property when there can be a reasonable difference of opinion between the taxpayer and the Administration. It refers solely to the declaration concerning the quality and quantity of the property belonging to the taxpayer, and to the existence of debts and burdens in regard to it.

The tax is paid, during the ten or twenty years that it lasts, in the usual manner in which direct taxes on incomes are paid in Italy, namely in six annual payments. The payment may be made in lawful money, in Treasury notes discounted to the day of payment, in certificates of the public debt and in long-term Treasury notes, in postal orders, in bank notes, and in certificates of credit of institutions that can issue them.

The taxpayer who wishes to dispose of the tax at once may redeem it on the basis of compound discount at 6 per cent. The discount may be asked for at the outset or at a later period.

The system of redemption is the same in substance as those of delayed interest occurring in similar laws, like the German law. The real burden is not that resulting from the rates above mentioned, but is given in the actual value of the 10 or 20 years of taxes discounted at the rate of 6 per cent. The maximum rate of 50 per cent (on properties of 100,000,000 lire) consists in reality of twenty annual payments of 2.50 per cent; the present value of these twenty annual payments compounded at the rate of 6 per cent a year is 28.67 per cent. The taxpayer, possessing 100,000,000 lire, has therefore a choice between paying 2,500,000 lire a year for twenty years, and paying immediately 28,674,803 lire.

It is doubtful if many taxpayers will take advantage of this right of redemption. Two circumstances stand in the way. In the first place, there is the wish not to let the Financial Department know the amount of money at their disposal. Many probably have the impression that if they pay at once they run the risk of being believed to be richer than they really are. In the second place, in order to be redeemed, the tax must be definitely settled. It is true that whoever asks for the redemption of the tax has the right to call for a definite valuation of lands and buildings. But the settlement of the serious questions which will arise with every declaration will require a long time. But seldom can a taxpayer obtain a definite statement of the tax owed by him until several years have passed.

Besides the right to ask for redemption at any moment, the taxpayer has also the right to ask for the shortening of the period for paying the tax. For instance he may ask that the tax which is due from him in ten or twenty years shall be paid in five or ten years; and in these cases also he will be entitled to the discount for the shortened time at the rate of 6 per cent compound interest.

Penalties

Italian legislation, from the time of the fundamental laws of 1864 and 1865, did not lack severe measures by which to punish the taxpayer guilty of omissions or of dishonest declarations. But in the case of penalties as in that of declarations, lack of enforcement had rendered these measures inefficacious.

Here, too, the war introduced into Italy severe measures which were applied in not a few cases. Persons taxed for the excess war profits were not infrequently made to pay serious fines for dishonest and incomplete declarations. The decree of April 22 now threatens various penalties for taxpayers who violate the law; I shall mention only the chief ones. Whoever omits to present the declaration of property, or delays in presenting it, is subject to a pecuniary penalty amounting to $\frac{1}{8}$ of the tax finally fixed on the property. Whoever presents a declaration which is wholly or partly untruthful incurs a pecuniary penalty equal to $\frac{1}{4}$ of the tax of which the Treasury would have been defrauded. This penalty, however, is not applied when the tax of which the Treasury would have been defrauded is not more than $\frac{1}{6}$ of the tax due. Whenever the taxpayer refuses to sign the oath put to him, or does not present himself at the time assigned, he is subject to a pecuniary penalty equal to $\frac{1}{4}$ of the tax. These are the chief pecuniary penalties. Besides there is the possibility of confiscation of a sum equal to the amount of property withdrawn from what is due for taxation, when the taxpayer has taken a false oath or has had recourse to acts meant deliberately to defraud the state. This last penalty, however, can be inflicted only by the ordinary courts of law. An interesting detail regarding pecuniary penalties, which deserves to be recorded, is contained in

Article 53, which forbids the remission or reduction of pecuniary penalties save by legislative enactment. The reason for this is to prevent the executive power from weakening the force of the penalties against non-compliers by reducing or excusing the penalties through political influence. To make even more sure that the penalties are levied effectively, Article 52 provides that the amount obtained from them shall be paid, one-third to the public Treasury, one-third to the National Bank for Social Insurance, and the last third to the National Relief for those who fought in the war. Thus important interests are created in public bodies to see that there is a strict and severe application of the pecuniary penalties.

I have fulfilled the task of relating briefly the vicissitudes of the legislative provisions referring to the tax. But it is not entirely certain whether this is the final form the legislation will take before it is put in operation. The decree of April 22, 1920, must yet be discussed in Parliament, which may make more or less important modifications in it. Nevertheless, the decree, having been proclaimed when Parliament was not in session, is in force now and has begun to be applied. On May 31, (or rather on June 10, 1920, on account of a brief postponement granted at the last moment) the taxpayers were obliged to present their declarations and the process of revision has already begun. It is probable therefore that, in order not to interrupt the work begun, the modifications introduced in Parliament will not be vital, all the more because it is improbable that the sessions of Parliament will be long and such as to admit of a long discussion of this problem.

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ROSS'S PRINCIPLES OF SOCIOLOGY[1]

THERE are at present almost as many systems of sociology as there are teachers in the field who are capable of systematizing their ideas. What sociology will ultimately become is still, after a full generation of university teaching, impossible to predict. It will probably depend upon who produces the first treatise with sufficient mastery of facts, logical consistency, and systematic balance to dominate the minds of a large number of students. Spencer's monumental treatise probably comes nearer reaching that mark than any other; but it runs counter to the drift of opinion among the emotional devotees of the sociological cult, and has not won a mastery over their minds. Almost the only general statement that one can make regarding sociology as actually taught in schools and expounded in treatises is that it is a refuge for all those who revolt against the cold, unemotional reasoning of the dominant school of economists, and who turn to sociology as a means of finding quasi-scientific labels for their sentimental whims. Most recent treatises on the subject consist mainly, therefore, of a new set of terms for old and trite subjects.

It has been known for a long time that Professor Ross was preparing a general treatise which would systematize sociology as he saw it. It was easy to foresee that the work, when completed, would be a notable contribution, that it would be brilliant in style, that there would not be a dull page or paragraph in the entire book, and that whether it was convincing or not, almost every statement would arrest attention and compel thought. In all these respects the completed work surpasses expectations. It was also expected that Ross's economic training would enable him to avoid the weaknesses of many preceding treatises written by men and women who

[1] Principles of Sociology. By Edward Allsworth Ross. Pp. xviii, 708. New York. The Century Co.

imagined that a system of sociology could be constructed in the air without regard to the gravitating pull of economic forces. In this respect also the book before us comes almost if not quite up to our expectations.

Further, the author's long experience in teaching, together with his broad academic training and his extensive travel and other opportunities for gathering information led us to expect that this matured product would be a comprehensive and systematic treatise. In this respect it comes quite up to the exnectation of those who approach the subject from his point of view. Even those who not only have a different point of view but conceive the subject matter of sociology to be entirely different from that which Ross conceives it to be, among whom the reviewer must count himself, cannot but admit that he has gathered a vast amount of illustrative material, and has classified it and arranged it under a comprehensive scheme; and that therefore this is in the truest sense a systematic treatise or a "system" of sociology. A different question is whether it is likely to be the master treatise which shall hereafter determine the scope and character of sociology, as the *Wealth of Nations* did of economics? It is surely no disrespect to Ross or his book to express doubt. Many great men and many great books are less great than Adam Smith and the *Wealth of Nations.*

It is the reviewer's belief that the work is the best single text book for class room use in the teaching of sociology that has yet appeared, with the possible exception of Spencer's *Principles.* To begin with the least important — the purely mechanical advantages — it is divided into five parts and fifty-seven chapters. The five parts are: The Social Population, Social Forces, Social Processes, Social Products, and Social Principles. More than half of the book, however, including Chapters 8 to 45, is included in Part III — Social Processes. The chapters are short and pointed. Each one can be read quickly before the mind is fatigued or attention flags. Each chapter is headed by a suggestive title which stimulates interest before the reader begins. Considerable time and ingenuity must have been expended in inventing

these headings. A sample group including the titles of the last ten chapters under Part III are Individuation, Liberation, Commercialization, Professionalization, Institutionalization, Expansion, Ossification, Decadence, Transformation, and Reshaping. It must be confessed, however, that it is not always easy to see the connection between the title of a chapter and its subject matter.

Another advantage for class room use is the provocative character of the book. Those teachers who use the method of class room discussion will never lack material. The book fairly bristles with points for controversy. There is scarcely a paragraph that does not contain some statement calculated, like a blow in the face, to start an argument. And a strong feature of the book is its wealth of illustrative material, drawn especially from the fields of psychology and anthropology. In this respect it is surpassed only by Spencer's *Principles* and Sumner's *Folkways*.

Ross regards sociology as primarily a psychological science. In fact he says, in so many words, "The immediate causes of social phenomena are to be sought in human minds" (p. 41). Granting this to be true as to *immediate* causes, it does not follow that the ultimate causes or the determining factors in the long run are psychological. Doubtless, whatever is done in society is done because some one chose to do it or to have it done. One student may therefore be content to find out what determines these choices, but it is surely legitimate for another to try to find out how certain choices work, what happens to those who choose to do thus and so rather than something else, and what has become of those people who made those interesting choices or did those interesting things which the anthropologists recount. It seems to the reviewer that the economic results of mental reactions are quite as important as their sources. In this respect, however, he appears to differ from the behaviorists in the field of economics as well as from the anthropological moralists and the psychological sociologists.

Ross comes very near repudiating the whole idea of selec-

tion by economic forces among the varied and heterogeneous desires of individuals, communities and classes in the opening chapter of Part II on social forces. On page 42 he says:

> No sooner have we arrived at the truth first emphasized by Ward that *the social forces are human desires* than we come upon new forms of error. The organic conception of society pictures the desires of individuals as running together into a collective desire for social welfare. This generalized desire for certain results would be the cause of the "social organs" functioning. Thus Spencer is apt to attribute an institution either to the individual's sense of a common interest or to the common sense of an individual interest and to overlook the rôle of special desires behind a particular institution. In accounting for monogamy, he stresses too much its good results and ignores the rôle of male sexual jealousy. He thinks the force which calls customary rules into being is "the consensus of individual interests."

He further endorses the views of such social psychologists as MacDougal, Thorndyke, and Veblen, to the effect that the emotions and instincts are the prime movers in human behavior; but he saves himself by saying (p. 43), "The existence of an instinct is no reason for giving it free cause"; but beyond some vague generalities regarding the sublimation of instincts, he says little to support or amplify the statement.

It seems to the reviewer that Ross leans quite as far in the opposite direction as he accuses Spencer of leaning in the direction of explaining institutions on the ground of economic advantage. As to monogamy, for example, it is doubtless true that male sexual jealousy had a great deal to do with it. It probably had quite as much to do with polygamy, the difference being that the jealous males in one case are of approximately equal power and will therefore not tolerate a monopoly of women whereas in the other case they are of unequal power, and the more powerful ones try to monopolize the women. Besides, when violence is not tolerated the preferences of the women must be given some weight. If the average woman would prefer to be the one wife of a mediocre man to being the second wife of a greater one, her preferences will have something to do with the institution of marriage. In fact most of our economic institutions, including property

and contract, are not created by law at all, but spring up spontaneously and automatically with the suppression of violence. Let the government once suppress violence and property exists. It can only be destroyed by force or violence.

But aside from all this, if monogamy had not proved to be on the whole beneficent, even male sexual jealousy could not have kept it alive, for the reason that monogamous communities would have been handicapped in the struggle for land and subsistence. In this very important and fundamental sense the beneficence of monogamy must be considered as a factor in its existence.

It is probably true, as the behaviorists and psychological sociologists insist, that no institution, or at least almost none, was ever consciously created because men deliberated and arrived at a purely intellectual conclusion that its adoption would be a good thing. Since the social contract theory lost its vogue, no one has ever seriously held such a view. Instincts, emotional interests, special desires, and unreasoning impulses have doubtless been the moving forces. But the great principle of selection is not abolished by this admission. However they may begin, some customs, social habits, institutions work better than others, not always because they fit man's instincts better than others, sometimes for reasons in no way connected with psychology, generally for a mixture of psychological and other reasons. Nearly every boy, when he begins to strop a razor finds it "natural" to turn the razor on its edge rather than on its back. He soon finds that it does not work well. At considerable pains he must train his muscles to work in what seems to be an "unnatural" way. If he had to do the same thing under the orders of a boss he would, if he had read much behavioristic economics and psychological sociology, feel outraged at such an attempt to warp human nature.

This seems, doubtless, a very simple illustration; but it was chosen for that reason. The fact that after the boy has trained his muscles to turn the razor on its back the motions involved begin to seem quite as "natural" as those involved in turning

it upon its edge, indicates that human nature is, within limits, adaptable and can without harm adjust itself to many non-psychological conditions whenever there is a mechanical or economic advantage in doing so. This observation, moreover, has many applications and when widely applied will compel a modification of the findings, not of social psychologists of recognized standing, but of those enemies of the present social order who have seized upon social psychology as a new found weapon of attack.

The observed fact that men do sometimes modify their behavior because they perceive that some mechanical or economic advantage may be secured by so doing can scarcely be ignored by any scientific student. To do so would be as gross a neglect of vital facts as to ignore instincts altogether. But what is meant by the statement, quoted from Veblen, that the instincts are the "prime movers" in human behavior? If it means that, historically and anthropologically, men behaved instinctively long before they began consciously to shape their conduct to rational economic ends, it may be freely admitted; but, what of it? If it means that men *never*, even now, consciously shape their conduct to rational economic ends, it is absurd. If it means that the average man is still mainly controlled by his instincts and only to a slight degree by rational calculation, a number of large and difficult questions are raised.

In the first place, what is meant by the average man? Is it an arithmetical average of all human beings of whatever race, color or condition? If so, can any statement made about him be applied to Americans of the twentieth century? Again, if it were found that calculated advantage is a larger factor in determining the behavior of civilized than of savage men, and that its influence tends to increase as intelligence and civilization advance, is the tendency a matter of importance? Again, suppose it were found that in the same community there was a wide difference among individuals in the degree to which rational calculation influenced behavior, the economically successful classes being more largely controlled by rational calculation than the economically unsuccessful,

would that possess any significance? Would we advise people to control themselves and direct their conduct by rational calculation, or would we advise them to "let nature caper"? It comes down to this; would we advise the boy to learn by hard practice to turn his razor on its back, or to follow his own inclinations?

These questions, or rather this question — for they are all reducible to one — is as old as philosophy, tho it has not often been stated in economic terms. Shall we school and discipline ourselves into conformity with the conditions of successful living, or shall we follow our own proclivities and insist that it is an unjust world which does not bestow success upon us? Shall we labor to acquire those habits which are best, which work well, trusting that practice will eventually make them agreeable, or shall we follow our instincts because of the pleasurable sensations which result, and let the ultimate economic consequences take care of themselves? Does living "according to nature" mean adapting ourselves to nature in the outer sense, or does it mean following our own inherited nature? The progressive parts of the world, that is, those parts where industry has been efficient enough, and governments liberal enough to permit considerable numbers of people to make a living, have all followed the stony road of self-discipline; but there is a distinct tendency to abandon it for the primrose path of instinctive behaviorism. In many circles, educational, religious, sociological, and economic, there is a nervous fear lest child nature or human nature in general should be warped, its instincts thwarted, or that it should be trained out of its "natural" bent.

The process of trial and error, sometimes euphoniously called "creative evolution," is doubtless tending to bring about a harmony between human behavior and the behavior of things. Those individuals who can not readily discipline themselves or conform their behavior to the mechanical and economic necessities of a situation, or who suffer serious harm from such conformity, tend to be weeded out, while those to whom the self-discipline which proves to be mechanically or economically advantageous is easy and harmless, will tend to

survive. In the course of time a race is built up which is able to do things in the right way, to direct its conduct with some regard to the behavior of things; but this race is created and can be created only by the process of selection, trial and error, success and failure, survival and extinction. To say, therefore, that a certain requirement in human conduct produces numerous failures, that many break under the strain, or suffer certain physical, mental, and moral disorders through trying to live up to the requirement, is not enough to condemn it. Does the requirement work well when people do live up to it, and is there a sufficiently large element in the race who can live up to it without harm, to serve as a "saving remnant" and become the progenitors of new generations of superior adaptability? If so, the requirement may well be insisted upon, in spite of the fact that considerable numbers find difficulty in conforming.

True, this is a somewhat hard view of life and conduct; but experience with real things must convince any one that it is hard to do any thing in the right way. Every mechanic knows that it is easier to botch a job than to finish it properly. There is only one right way, or at most very few, of doing anything. There are a thousand wrong ways. This observation applies, without exception, to everything we do; it even applies to living. Not in a purely religious sense, but in the most rigid economic and mechanical sense, "strait is the gate and narrow is the way that leads" to success, or survival, for races, and nations as well as for individuals.

The importance of studying the psychology of behavior with a view to ascertaining how men may be controlled, directed or led to do things in the right way is not to be minimized; but it is of equal importance that we should know the right ways, not simply in the fields of mechanics and technology, but equally in the fields of economics, politics, and even morals. The questions how men actually behave, and why, are important; the questions how *must* they behave, and why, if they are to succeed in this world of struggle, where the forks in the road that lead to survival and extinction always before them, are equally important. If we can

once settle the latter group of questions, we may then turn to the former for the purpose of finding out how our race can be led to do the right things, that is, to do whatever is necessary to its own perpetual success or survival. It seems to the reviewer that Ross has not given the attention to this class of questions which they deserve.

The chief systems of sociology should be classified on the basis of this difference. One group is largely psychological and anthropological, the other is economic and evolutionary. One group aims to describe human nature as it is found, anywhere and everywhere. The other aims, so far as it discusses human nature at all, to describe it as it inevitably tends to become, as it must become under the conditions of the evolutionary processes of selection, and as it has actually tended to become among the more successful races, groups, and classes. One group is primarily concerned with describing and classifying; the other with analyzing and evaluating. Ross's system belongs in the one class, the reviewer's system, if he may presume to mention himself in such connection, belongs in the other; a difference which may account for the criticisms contained in the last few paragraphs.

There are a few other criticisms, mostly of detail, which do not depend upon a difference in sociological system, but rather upon a difference of temperament. Almost every paragraph, as indicated earlier in this review, contains statements that are calculated to provoke discussion and controversy. This feature adds to the value of the book for class room use, but can scarcely be said to add to its value for purely scientific purposes. Some of these statements are so ill-considered as to provoke something more than a questioning attitude and a desire for further light.

A few samples will suffice:

"The World War sprang from a conflict of rival imperialisms. Behind these imperialisms was the greed of certain influential financial or business groups secretly molding the foreign policy of government" (p. 45). This is familiar to those who have listened often to soap box pacifists, but one

does not expect to find it in a book with pretensions to scientific veracity. Again "Less and less is the instinct of workmanship stimulated as the minute subdivision of tasks makes labor a monotonous repetition" (p. 50). The monotonous repetition of this formula is even more depressing than the routine work of the machine tender; besides it does not convince the critical judgment. Few operations are more specialized or monotonous than plowing or knitting; yet Tolstoi has testified to the stimulating effect of the one upon the mind, and the therapeutic effect of the other in case of nervous disorders is well recognized. Anyone who will use his eyes and his mind, and compare a machine tender in a shoe factory with a shoe maker at his bench, is not likely to be deceived as to which is the happier, the freer or the more alert in mind. If it is meant, as is sometimes implied, that an artist is happier in his creative work than the average machine tender is in his monotonous work, the statement may be freely granted; but it does not follow that the average machine tender would be an artist if he were not unfortunately "chained" (to use a common but intentionally misleading word) to his machine, or that he would be happier if he had to make a complete product instead of a minute fraction of it. Moreover, in spite of the fact that laborers have been told repeatedly and vociferously that machine tending stifles their instinct of workmanship and kills all joy in work, they show by their actions that they do not believe a word of it. When the alternative is presented, at the same wages, they will uniformly and without hesitation choose machine tending rather than farm work or even bench work in which they are required to perform a multitude of operations.

"Exclusive capitalist control of industry thwarts the worker's impulse to self-assertion, stirred as it is by the democratic ideas of our time" (p. 50). This seems to imply that "exclusive capitalist control" has been seized by force or authority instead of being won by the process of buying and selling. If some choose to spend their surplus incomes for producer's goods while others spend them for consumer's goods, both are following their impulse to self-assertion, yet the one class will

thereby acquire exclusive control of the capital of the community. Just how it thwarts the desire for self-assertion to allow each class to spend its money as it sees fit, or how anything could possibly be more democratic than this would be difficult to show. If those who chose to spend their money for producer's goods were not allowed to own what they bought, but the ownership were turned over, in part, to those who chose to spend their money for other things, it looks to the reviewer as tho this would be some interference with the "impulse to self-assertion." Even the desire to possess what one has never paid for can scarcely be denatured by suggesting that it is "stirred by the democratic ideas of our time." It is not the instinct to self-assertion so much as the instinct to grab what the other fellow has that is involved. This is not sanctified when done in the holy name of labor any more than when done in the profane name of business, tho there may be more excuse for it in the one case than in the other. It is not stirred by democratic ideas so much as by the sense of unrestrained power which sometimes takes possession of an indignant crowd.

On page 111 Ross points out a very widespread human tendency, which has an important bearing on the case. "The delight of 'taking down' one who is throwing us into the shade is very evident. School boys on the playground 'take it out' of teacher's pet, bespatter the best-dressed child, and pursue the prize pupil chanting some incantation rhyme built about his name. Girls try to take down the girl all the boys are fond of, and the uncouth lads join to humiliate the boy that the girls favor." Why the author is willing to recognize the tendency to "take down" those more successful than ourselves in every game or activity except money getting, or why he should call it the "stirring of democracy" in the latter case and by less euphonious names in all others, is impossible to conjecture. And yet (p. 141) he says "So long as they exhibit the ordinary economic and social virtues, the capable are in no danger from popular envy and cupidity." This is not only inconsistent with his remarks about "taking down" our more successful rivals, but it is contrary to experience except

in a very few of the most enlightened communities of the earth. So far as the world has had experience of proletarian revolutions it has learned that the so-called intelligenzia fare no better at the hands of a real proletariat than do landowners and capitalists.

In one of his marginal headings (p. 116) Ross makes the unqualified statement that "no one is really self-centred." The reasons given, however, are merely that no one is absolutely indifferent to the opinions of his fellows. The fact that one cares for their approval certainly indicates a certain, rather intense interest in oneself. If one would rather be well thought of than to have some one else well thought of, that again indicates a certain preference for self as compared with that other person. If one cares more for the good opinions of those nearest him in point of space, kinship, ideals or like-mindedness, than for the good opinions of those less near, that argues also for a certain self-centredness. A being who cared absolutely nothing for the opinions of any other beings would be hard to classify. He could just as well be absolutely without interest in self as be a towering egotist.

Chapter XII, on Exploitation, presents a somewhat gloomy picture. One gets the impression that there is not very much going on in civilized society except exploitation. This results from the author's tendency to call everything exploitation where one class manages to prosper more than another class. Nowhere does he make the important distinction between exploitation based upon the power to inspire fear and that based upon the power to confer benefit. When a group can get what it wants by making others afraid to refuse its demands, whether it prospers thereby or remains poor, there is, qualitatively at least, exploitation. When another group can get what it wants by reason of its power to serve or minister to the needs of others, even tho it prospers thereby, it is doubtful whether the process ought to be called exploitation; yet the unthinking never make any such distinction. Prosperity is sometimes forced upon a man through no fault of his own. The person who is recognized as indispensable can generally get what he desires, whether it be

votes, money or anything else, tho the very people who have benefited through his indispensable service sometimes resent his success, particularly among the backward peoples whose lack of economic virtue has kept them back. The author's undiscriminating discussion of exploitation, and many other parts of the book, show an apparent tendency to cater to those splenetic temperaments who find it easier to believe evil than good of those who achieve any considerable success either in vote getting or money getting.

After asserting (p. 208) regarding sumptuary laws, that they are intended to protect the prestige of the higher social orders, tho often urged on economic grounds, he says:

> Monogamic marriage, tolerant enough toward monastic and Shaker celibacy, which put yet greater strain on human nature, suppresses as a dangerous rival every laxer form of sex relation — "free love," the "complex marriage" of the Oneida community, Mormon polygamy, etc. Nor has it acknowledged any right of groups of men and women to order their relations according to their own convictions and judgment.

The statements that monogamic marriage does acknowledge the right of groups of men and women to maintain celibacy, and that it has not acknowledged "any right of groups of men and women to order their relations," etc., are of course, contradictory. But, worse than this is the implication that the strain which an institution, or a standard of conduct puts on human nature is a reason for condemning it, and that relations between men and women might well be left to "their own conviction and judgment." This, however, is consistent with the nervousness of psychological sociologists and economic behaviorists in general lest some law should be passed, practice adopted, or institution established, which should put a strain on human nature. Even more monstrous, however, is the implication that the reason why monogamists disapprove of free love, complex marriage and polygamy is to preserve their own prestige.

"The catering of corporate universities to the prejudices of possible donors would hamper gravely the teaching of the

social sciences were it not that they have to meet the competition of the liberal state universities" (p. 216). It would be interesting to know whether there has been less meddling with academic freedom in state than in endowed universities.

The frequent occurrence of slurs and innuendoes, a few samples of which have been quoted, betraying an animus of the author rather than calmly and dispassionately reasoned conclusions, is the chief weakness of the book. But we must not dwell longer on this weakness lest we be guilty of the vice very prevalent among writers on sociology, including the author before us, of seeing only the evil and the disagreeable in that which they are trying to describe. They resemble certain oriental pessimists, who used to describe man, of whom they had a very poor opinion, by selecting the obscenities of anatomy and dwelling upon them with nauseating particularity. Their statements of detail were true enough, but their pictures of man as a living whole were criminally false. Many of our writers on sociology have formed the habit of selecting certain sore spots on the body politic, and those aspects of normal social life which lend themselves most easily to derogatory description, and of dwelling upon these to the exclusion of everything else.

A possible reason for assuming this attitude is what he calls in his chapter on Opposition (Ch. XIII) the spirit of contradiction. Regarding "born kickers," he says, that they "pose as champions of threatened rights, knightly defenders of the minority, when, in fact, what animates them is the spirit of contradiction." Quoting from Simmel, who detects in himself "a gentle, often scarcely conscious, and even immediately vanishing, impulse to say no to an assertion or appeal," and who "infers that one personality in encountering expressions of the personality of another, cannot assert itself otherwise than by some form of opposition," he concludes that the attitude of hostility is more easily created than that of sympathy and appreciation. It seems, however, that this conclusion is based upon too narrow a field of observation. Some people undoubtedly react in the way described, but it is equally certain that others react in the opposite. Nor is it

very profitable to try to find out how the average man acts. What we need is a reaction curve, showing the distribution of different kinds of reactors to denunciatory and commendatory suggestion. Everyone knows of individuals who are so kindly disposed toward everybody and everything as to assent naturally to everything that is said to them. They react differently from the way in which Simmel finds that he reacts. Between the extremes of counter suggestion and pathological obedience, there are all degrees of good nature and ill nature. If one is in the habit of talking to those at one end of the curve, he will doubtless find it easier to create hostility and resentment than friendship and appreciation. "It is a pity" says Ross (p. 160) "that hostility is a highly suggestible attitude. It seems to be easier for the orator to sway the mob *against* someone than to sway it *for* him. Simmel holds that it is much more difficult to influence the *average man in general* [italics mine] to take an interest in or to feel an inclination of sympathy for a third person previously indifferent than to develop in him mistrust and antipathy."

Mark Antony had to assure the mob that he had not come to praise Caesar before he could even get a hearing, but it was the mob and not the intellectual and moral élite of Rome to whom he was speaking. Anyone with a raucous voice can get an instantaneously favorable hearing from the Sunday afternoon crowds in almost any public place, by merely standing up and denouncing something. At the same time and place it would take a really great orator to create a good opinion regarding the things thus denounced. But it would be hasty to conclude anything about the "average man in general" until we had tried it on other groups of people. Even then we shall probably conclude that we cannot find out much about the "average man in general," but that different groups react differently according to their place in the curve.

These trifling weaknesses should not blind us to the great and conspicuous merits of the book. Among the vast number of statements that are calculated to provoke discussion, some of which are mere slurs and innuendoes, many must be

regarded as genuine flashes of genius. Speaking of the rapid development of human life in cold countries and the slow development of the tropics, Ross remarks: "Had the art of cooling kept pace with the art of heating the story might have been different. Ever since he invented fire and clad himself in skins, man has been in the way of invading the harsher climes; but only our own time has seen the beginning of a technique of cooling which may yet enable him to conquer the tropics instead of succumbing to them" (p. 68).

The materialistic and other special interpretations of history are effectively disposed of as follows:

> It is reasonable to suppose that men's attitudes and actions depend most on what most worries them. When they worry chiefly about what the Unseen will do to them, the course of society will be most affected by developments in the field of religion. When they lie awake for fear their property or their lives will be taken, their attitude toward everything will depend on how it is related to the security-furnishing organization, i. e., the State. When their supreme anxiety is where the next meal is coming from, they will be for everything that promises to promote economic success and against everything which appears to hinder it. As soon as one worry is soothed it ceases to shape the course of history and some other supreme worry takes charge.

Whether the book is great enough to dominate the minds of sociological students and determine the character and scope of sociology in the future, remains to be seen. It lacks one quality which such a book ought to possess. It is not convincing. Those who already take Ross's point of view will read it with unmixed delight and complete agreement. Those who take a different point of view will read it with mingled delight and irritation, and with only partial agreement. There is no such logical and consistent line of reasoning supported by ample evidence as should force conviction upon those not already convinced. The book will serve admirably as a thought provoker in the class room; but a great and masterful treatise should do more than this.

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REVIEWS

ROCHE-AGUSSOL'S PSYCHOLOGIE ÉCONOMIQUE CHEZ LES ANGLO-AMÉRICAINS[1]

OPPORTUNITY is given by these volumes to view the whole contribution of English and American "psychological" economists through the eyes of a young French scholar, admirably schooled in economics under Professor Rist and trained further in law and social philosophy.

Who are the psychological economists ? No less than three fairly distinct movements in economic theory may be called psychological. The contributions of the marginal utility analysis — by Jevons, the Austrians and others — constitute one. Next, there is a scattered body of criticism beginning perhaps with Knies, directed against the individualist, hedonist, "self-interest" psychology of the classicals. Critics of this type, having learned from anti-utilitarian moralists or from social psychologists that the hedonist psychology is inaccurate, protested that economic theory based on it must be wrong too, tho they have never been clear as to just how it might be serviceably revised. Their influence, it would appear, has been more pronounced in the English and German speaking countries than in France. The third psychological movement has recently grown out of the second. This school, without disputing seriously the marginal analysis, which takes people's economic wants for granted, attempts to develop by psychological methods a body of positive theory to show why wants are what they are, and how they may be better adapted to external nature. Some writings of Taussig,

[1] Maurice Roche-Agussol: (1) La Psychologie Économique chez les Anglo-Américains, pp. 407, 1918; (2) Étude Bibliographique des Sources de la Psychologie Économique chez les Anglo-Américains, pp. 127, 1919. Paris, Léon Tenin.

Hobson, J. M. Clark, Parker, and even Carver, are tentative efforts in this direction.

Which of these trends is reflected in Dr. Roche-Agussol's *Psychologie Économique?* He takes no account of the third; and he attempts to deal with the first two groups we have mentioned as a unit. He is a marginal-utility enthusiast, quite in the spirit of Jevons and the American "psychological school" of Fetter and Fisher, and a good part of his work details the triumphs of this analysis over the classicals. Sometimes he speaks of pure economics as if it were the same thing as psychological economics. Yet he seeks all along to show that social psychology, challenging the individualist, hedonist, determinist, optimist psychology, and philosophy of the classicals, has led to important modifications of economic theory. To this end he draws elaborately on American and French sociologists, and among economists especially on J. B. Clark (who seems best to typify for him the psychological economist) for suggestions on moral forces, custom, the organic constitution of society. Clark in turn had drawn from these same sociologists — Dewey, Baldwin, Giddings, and the rest, as well as from the German historical school.

But how far in the end did Clark's social psychology get him from Jevons, who held the most thoro-going hedonist views? Dr. Roche-Agussol does not meet Böhm-Bawerk's protest that the modern theory of value is founded on objective facts of choice, shown by price offers, and not on any special psychological explanation of choice. He does not even realize, apparently, that there is any question about the dependency of the former on the latter. His pure economics (marginal analysis of value and distribution) therefore spins out just as it would on hedonist premises — very competently too — and his sociological interpretations and criticisms get him nowhere in positive economic theory. The proof of this judgment is that he draws indifferently on Jevons, Clark, Fisher, Edgeworth, Wicksteed, for his "psychological" *economics*, whose contributions are undisturbed by the sociological excursions into Tarde, Dewey, Bergson and others.

With these indications of the author's trend, we may glance at the list of authors in his *Étude Bibliographique;* it helps to characterize his main critical work. First there is a group of psychologists and sociologists, evidently those he considers most important in the matter: James, Dewey, Baldwin, Giddings. The omission of McDougall is unaccountable. Then a group of American economists: J. B. Clark, Carver, Patten, Walker, Hawley, Taussig, Fisher, Fetter, Tuttle, Veblen, J. M. Clark. The English group is Jevons, Marshall, Wicksteed, Smart, and Hobson. Biographical notes are given on most of these men, and their productions are briefly summarized and related. Of course Davenport, B. M. Anderson (whose standpoint is very similar to that of Dr. Roche-Agussol), Cannan and others might well have been included, but, working at a distance, the author has collected representative Anglo-American opinion on the many aspects (utility, value, distribution, social welfare, philosophical relations) which are, for him, psychological economics.

Turning now to the principal work, *La Psychologie Économique*, I may say at once it is much more than a rehash. The assessment of credit for particular doctrines to various English and American writers is subordinate to a systematic treatment of the whole marginal economics. The author is well acquainted with the French and Austrian schools, including the mathematical variety, and he is not lacking in original constructive criticism. I regret I cannot do justice to his work in the subtleties of pure economics, wherein the main excellence of the book undoubtedly lies. His figurative style is pleasing, tho the exposition proceeds too much in the abstract, unrelieved by specific illustrative applications. The philosophical relations brought out all along — on just price, for example — are manifold, often novel, and will be valued highly by many readers.

The first of the two main divisions is devoted to "Fundamental Ideas" — method, utility, marginal utility, cost, synthesis of value, wealth. The second part is "Applications" — price, marginal theory in distribution, rent, interest.

In the chapter on method he proceeds from the acceptable

point that value is not fixed by past events but is prospective, based on the future, to the Heracleitian, Bergsonian position that everything is in flux; members of society are constantly inventing and are influencing one another by interplay of minds, by imitation. We must abandon the individualist, mechanist standpoint of the classical economists and turn to social psychology.

The familiar reply is at hand — how can you found science on indeterminism ? Explanation and prediction are possible only on the assumption that nature contains uniformities which can be discovered. The author seems to think the mathematical idea of function, of mutually determining variables like quantity and price, fits in with the philosophy of spontaneity. But it is otherwise if the mathematical formulae are supposed to have any correspondence to real phenomena. The instance is one among many of his exaggerated contrast between the marginal and the classical economics, arising from the use of philosophical dialectic.

Fortunately all this does not interfere seriously with his handling of the marginal analysis. The "law of substitution" is developed admirably and at length. In general he follows Fisher and Wicksteed on value, calling in Clark wherever there is a chance. He distinguishes three kinds of cost — utilization, acquisition and of production (Ch. IV). The first is psychic opportunity-cost — the most urgent desire left unsatisfied — and he believes all other costs reduce to this rather than to any kind of unpleasantness. The strength of a single desire is measured by the proportion of the agent's resources it can command.

In regard to the interplay of desires and the judgment of value he invokes the magic of self-realization, insisting that a desire is a very different thing from a pleasure. Very likely; but so far as value is concerned, both work out by the familiar hedonic calculus. Otherwise how could he use the device of infinitesimal increments ? He knows, of course, that individual men do not juggle with such increments but in the aggregate (reference to Jevons) demands do show great regularity. This fact should suggest a few puzzles to the indeterminist.

Individual "spontaneity" is just what he would expect; but where does the regularity of the averages come from ?

In the discussions of distribution we find Clark's influence most marked; hence little consideration of several important questions in economic psychology. Specific productivity is the key; he shows that the device of increments renovates the Austrian theory of gross imputation; but he fails to criticize the ethical pretensions of Clark's formula. Carver would be a safer guide, saying as he does that the function of a high price is to induce people to increase scarce and highly useful service. Here also there is exaggeration of the contrast between marginal and classical doctrines — solidarity opposed to conflict, and so on.

The analysis of rent is devoted chiefly to the psychological surpluses in labor, in saving, and in consumption; but no attempt is made to appraise their significance in the light of socialist proposals. What would be the effect on the supply and organization of capital and labor, if everyone were given a nearly uniform subsistence, "appropriate to a civilized being ?" What is the motivation in inheritance, trademarks, titles? What institutional changes does the nature of motives make possible and desirable for larger welfare ? In such questions Dr. Roche-Agussol, like a good pure economist, is apparently not interested. If he were, it is unlikely that his indeterminist, speculative social psychology of twenty years ago would go far toward solving the problems. The objective, biological, mechanistic psychology of the laboratories — sometimes called "behaviorist" — tho it be nearer to old-fashioned associationist-hedonism, is better calculated to lead to a real science of wants, a real philosophy of society.

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WEBB'S HISTORY OF TRADE UNIONISM [1]

NEARLY thirty years have elapsed since, in the original edition of this book, Mr. and Mrs. Webb conquered a hitherto unsurveyed desert for economic science; and it is not too much to say that their book, in the interval, has become the foundation upon which all subsequent investigators have had to build. The new edition is almost a new book; for the two hundred and fifty pages which deal with the history of the last generation give a new perspective to what has gone before. The new book has all the qualities of the old — the same monumental grasp of detail, the same ability to hew the way from massive bodies of fact to equally massive generalization, the same unique insight into the meaning of economic institutions. If there is a certain triumphant note in the pages, it is, after all, not unpardonable; for the advance Mr. and Mrs. Webb have to record is in no small part of their own making. No one can study the history of labor since 1890 without the sense that Mr. and Mrs. Webb have been the midwives of ideas that otherwise could hardly have been born; and if there is a maturity about the ideas and structure of British trade unionism not unfairly to be described as absent from the American movement, it is largely because their books have made possible the emergence of an organized body of thought such as, at least upon this subject, no other country can claim.

In several senses, the history of British trade unionism since 1890 is one of hardly chequered progress. Even the seeming defeats, as in the Taff Vale and Osborne judgments,

[1] A History of Trade Unionism. By Sidney and Beatrice Webb. Revised edition. New York, Longmans, Green and Co., 1920.

have been masked victories; for the one led to the formation of the Labor party proper, and the other, by leading to the payment of members, democratized a career which otherwise must largely have remained the peculiar appanage of a leisured class. Yet it is the great merit of Mr. and Mrs. Webb's book that they do not seek to conceal the defects of British labor; and these defects have a special importance when it is realized how large a part the trade unions of today will play in the industrial organization of tomorrow. Granted an increase in numbers which, in 1894, would have seemed impossible; granted also an amazing growth of self-respect which has ended that period of dependence upon liberalism which is still typical of a handful of the older officials; granted, finally, an eagerness to end the criminal waste involved in unnecessary jurisdictional conflicts — it still remains true that the labor movement has serious problems to face before it can hope fully to utilize the resources at its disposal.

It has still, broadly speaking, to realize the significance of *expertize.* A movement so vast, which depends upon a knowledge so technical in its nature, cannot afford to starve its officials or to understaff its offices. Yet it must be confessed that few of the unions have so far grasped the significance of this issue. The officials of a great trade union are not less a genuine civil service than the officials of a modern government. They have, often enough, the life of the community in their hands. Yet there are many aspects of their work in which they are lamentably served. In information and publicity, in that saving of time which comes from the proper use of subordinates for unimportant tasks, they have much to learn. The difficulty of course is to keep them occupied only with fundamental business and at the same time to prevent that separation from the rank and file which is the root of labor's profoundest suspicions. The difficulty is clearly surmountable in the case of men of the mind and temper of Mr. Robert Smillie; but it has still to become characteristic of the movement as a whole.

Allied to this problem is the proper use of external assist-

ance. Here, it must be admitted, labor has still to lose a doubt of the brainworker which deprives it of valuable aid. In the larger economic issues which it confronts, more than half its problem consists in convincing public opinion that its case is just; yet the obvious assistance to persuasion is largely neglected. Occasionally a distinguished mind like that of Mr. Cole will win an exceptional degree of confidence; and the magnificent way in which the railway unions stated their case in the strike of 1919 is testimony and to spare of its value. But there is not enough eagerness to take advantage of the intellectual training which the changing social penumbra has placed at labor's disposal. This is perhaps most strikingly apparent on the political side. The average labor party in a constituency still seems to prefer the local trade union secretary whom its members have known all their lives than a really distinguished sympathizer who does not happen to have local affiliations. The result is written large in the quality of the labor party in Parliament; for, to put it bluntly, apart from an occasional speech by Mr. Thomas or Mr. Clynes, there is no labor member whose parliamentary technique is equal to that of the leaders of the liberal or conservative forces. It is true, indeed, that care must be exercised to prevent the party being the instrument for fulfilling the debating ambitions of Oxford and Cambridge. But a much more close affiliation between hand and brain workers must be effected if the party is to be successful in the House of Commons.

Hardly less important is the question of joint industrial action. Here, indeed, a great experiment has been made; and a still greater is to come. The "Triple Alliance" of miners, railwaymen and transport workers is a solid realization of the necessity of unifying the forces of labor, and it has, so far, had a not undistinguished history. And there is now being set up a "general staff" which will integrate the unions as a whole in a way which neither the Parliamentary Committee nor the General Federation of Trade Unions has been able to do. Yet not a little of wastage remains. Jurisdictional disputes are still lamentably numerous. Strikes such as the present

printer's strike in the North show how little thinking has been done by the unions upon really basic problems like the relation of skilled wages to those of the semi-skilled. No unified attitude upon conditions of entrance to the trade seems likely of achievement in the near future. Few unions sit down to think out their relation to the foreman in a given works; with the result that the electrical trades are in the midst of a national lock-out upon a spasmodic instance which the public inevitably regards as a quarrel over a minor issue instead of a large question of principle. So, too, in regard to the problem of the unit of industrial unionism. The local branch is based rather upon residence than upon place of work; and with the increasing size of factories, with the consequent growth of shop stewards, it is inevitable that in many cases it should have become obsolete. Yet it is also clear that within the ranks of unionism, too little provision is made for thinking upon this type of question. Men like Mr. Straker of the Miners, like Mr. Tom Mann of the Engineers, show a real sense of its importance; but, taken by and large, the main bulk of thought has come from interested observers like Mr. Webb and Mr. Cole. And even an obvious body like the Labor Research Department, which is capable of undertaking the needed work, is only half-heartedly supported by the movement.

The problem of "Direct Action" is dealt with very fully by Mr. and Mrs. Webb in these chapters, and they write of it with an understanding and an insight which are alike incomparable. Direct action over a distinctly industrial issue is now an accepted commonplace. The more difficult question is the use of industrial power for political ends. British labor, for example, has recently prevented the government from embarking upon a war with Russia by the threat of a general strike. The problem of war is, perhaps, a question apart; certainly there must be few observers not willing to admit that in the recent issue labor was closer than the government to the sense of the community. But general strikes have been urged on narrower issues, like the treatment of Ireland and the nationalization of mines. What is the validity of such action?

Clearly enough, it is, if resisted, tantamount to a revolutionary act; for no government could maintain its authority if it was unable to maintain a policy it deemed itself elected to secure. And the issue is peculiarly complex in a country where all men and most women are entitled to vote. More moderate unionists, like Mr. Thomas, believe that direct action for political purposes is justifiable only when, as with the recent case of Russia, the government seems anxious to force the country into an unwanted war. Others, like Mr. Smillie, seem to argue that if the trade union movement is largely convinced that some definite object is desirable it is justified in resorting to direct action for its accomplishment.

Mr. and Mrs. Webb point out in an admirable passage (p. 669) how complex are the motives from which that belief springs. In part it is that will to power which is not characteristic of labor alone but of which, in recent English history, the Unionist party in Ulster may be said to provide the most remarkable illustration. The vicar who refuses the parish hall for a socialist meeting is exercising the same kind of power in a way only less offensive because of its smaller repercussion. In part, also, it is a sense, on the part of a growing body of workers, that parliament is so unrelated to their needs and desires, that they must look to their own power for their accomplishment. At the moment this is still a minority view; tho labor is on record as contingently in favor of direct action if the present misgovernment of Ireland continue. And if it be replied that trade unionists have votes and can return a labor government if they so will, it is answered that the education of the average elector being insufficient to make him use that vote effectively, resort must be had to other weapons.

Here, clearly enough, we approach the dictatorship of the proletariat; or rather, of that section of the proletariat which is sufficiently convinced of the rightness of its purpose to sway the indifferent masses. It is no easy theory to answer. No one can deny that the training for citizenship at present afforded by the British educational system is largely ineffective and that the significance of the suffrage thereby suffers

grave attenuation. No one can deny, either, that it is to the interest of a large portion of the community to impede educational progress as long as possible; indeed, deliberate hindrances even to such timid measures as the Fisher Act are not undiscoverable. And the prestige of Parliament sinks lower with every session. That is not, indeed, an entirely new phenomenon; as early as 1898 the late E. L. Godkin observed with alarm the decline both of the quality of, and respect for, legislatures. It is becoming increasingly apparent that the only way to appease the clamor for direct action is by a vastly improved educational system, on the one hand, and a thoro-going revision of political institutions upon the other. Mr. and Mrs. Webb are inclined to doubt whether endorsement of a political general strike would be had. But it is certain that the channels through which majority rule makes its way must be effectively revised if direct action is not to become a normal weapon of labor.

And revised in a particular direction. The most important pages of Mr. and Mrs. Webb's book are those in which they record the growing demand of the labor movement for the elimination of the capitalist profit-maker. "To the new school of Trade Unionists," they write (p. 673) "the nationalization or municipalization of industry, or its assumption by consumers' coöperation, is a necessary preliminary to the partnership of Labor in its government." Of this there can be no question; and things like the evidence as to waste and mismanagement produced before the Coal Industry Commission of 1919 have convinced even conservative thinkers that the day of the old capitalism is done. With that view, of course, Mr. and Mrs. Webb are in complete sympathy; and they look to its triumph in part through the growth of trade union strength, in part by the conquest of the electorate by the Labor party. That ultimately they are right, is becoming more and more the view of most detached observers. Sociologists like Mr. Graham Wallas, administrators like Lord Haldane, economists like Mr. R. H. Tawney, have all given utterance to their conviction on this issue. What must strike the outsider is the relatively small amount of thinking upon

the problems of organization involved in this vision. The most fashionable creed at the moment is guild socialism; and the attractiveness of its appeal and the ability with which it is argued are alike unquestionable. Yet most who examine the literature of guild socialism will be a little baffled at its reticence upon such vital questions as the fixation of price, the procurement of capital, the maintenance of discipline, the retention of final control in the community as a whole. The nature of social organization is surely more complicated than the leaders of labor intellectualism would have us imagine, and the economic federalism for which they stand sponsor will have to penetrate further into the masses of their followers, and, what is even more important, become more genuinely related to the facts of psychology and the inescapable technique of administration, before it becomes a program capable of practical appeal.

This perhaps overemphasizes the difficulties a study of Mr. and Mrs. Webb's book must suggest; or, rather, its perspective is wrong by the absence of the admirable qualities they have to record. An observer of British labor today would, I suggest, be impressed at its solid idealism and singular adaptability; and he would note that it is in precisely these qualities that its opponents are most profoundly wanting. He would note, further, that it is today the one party in the state with a program which goes beyond the improvization of crises into temporary legislation, that it is the one party which exercises a consistent hold upon the imagination of the younger generation. It has energy, it has ability, it has enthusiasm. That its future will be chequered by disillusion and error no one can doubt. But it is not the least splendid part of Mr. and Mrs. Webb's *History* that no one can read its record without a sense that it is the preface to a destiny even more remarkable than its own striking past.

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NOTES AND MEMORANDA

THE BRITISH FINANCE ACT, 1920

The British Finance Act, 1920 (approved August 5th), is of interest in several respects. Perhaps the most striking feature is the repeal of the Land Value Duties; nothing of the experiment remains except the Mineral Rights Duty. These taxes, introduced eleven years ago by Mr. Lloyd George as Chancellor of the Exchequer against fierce opposition, are now abandoned with few expressions of regret, and the sums paid by taxpayers are to be returned to them on application. Mr. Asquith and many other members of the House still maintain that the principle of land values taxation is admirable, but these particular duties are generally admitted to be unworkable. In fact no Undeveloped Land Duty has been assessed since 1914, and legislation of a highly technical character would have been required to revive this and the other duties as well.

Strange to say, there seems to have been no mention in the Parliamentary debates of a defect in the increment duty that must of late have been very serious — that is, its failure to make provision for illusory increments due merely to a decline in the purchasing power of money. The Chancellor did mention the difficulties that the Valuation Department met on account of highly fluctuating and unstable values, but said nothing of the predicament of a landowner called on to pay a twenty per cent tax on an increase in money valuation unaccompanied by an increase in tax-paying ability.

Up to March 31, 1920, the total yield of the three duties repealed (Increment Duty, Reversion Duty, and Undeveloped Land Duty) was £1,329,000; the total cost of collection, including the cost of valuation of the land, was stated as £5,000,-

000. This takes no account of solicitors' fees and other private expenses of the taxpayers.[1] On the other hand the Valuation Department is stated to have saved over £1,000,000 for local authorities, in connection with land purchases for housing schemes. On account of the assistance the department is occasionally able to render to other branches of government it is not to be disbanded, but will be used in connection with possible future taxes and revisions of local rates. The provisions of law requiring all agreements of lease or transfer of real estate to be submitted to the Commissioners of Inland Revenue for record are still retained; the comprehensive valuation of all the land in the United Kingdom is, however, left uncompleted.

Of far more practical importance are the changes made in Income Tax. Altho the government expressed its intention to incorporate most of the recommendations of the recent Committee into a separate bill in the near future, the only changes proposed in the budget speech were those relating to differentiation, graduation, and double taxation within the empire. Some others, however, were added in the course of debate.[2] In all the changes made, the Committee's recommendations were very closely followed. Those that were reserved for later action were either too detailed and difficult to legislate on hurriedly, such as the redefinition of taxable income, or else controversial, such as the treatment of coöperative societies.

Earned incomes are given an allowance of one-tenth, but not to exceed two hundred pounds, to arrive at assessable incomes. Accordingly the other deductions as stated in the law are only nine-tenths of the amounts by which recipients of earned incomes are actually relieved. The scheme of allowances is practically the same as recommended by the Committee, the allowances being deducted, from incomes of whatever size, for the purpose of income tax but not for super-tax, as follows:

[1] For an account of some other drawbacks of the Land Values Duties, see an article by the present writer in this Journal for August, 1915, pp. 794 ff.

[2] On the Committee recommendations, see the article by Professor A. C. Pigou in this Journal for May, 1920.

Single man or widower	£135
Married couple	£225
plus an amount equal to nine-tenths of the wife's earnings but not to exceed £45.	
Female relative taking charge of children	£45
One child	£36
Subsequent children, each	£27
Dependent relatives, each	£25

The first £225 of taxable income, after all deductions and allowances, is subject to one-half the standard rate of tax, which is six shillings. Super-tax applies in addition to incomes over two thousand pounds, at rates varying from 1*s.* 6*d.* to 6*s.*, the last rate applying to the excess over £30,000. This, by the way, is 6*d.* higher than the rate recommended by the Committee.

If income is subject to taxation both by the United Kingdom and by some dominion or possession of the empire, the dominion tax may be offset against the British tax up to one-half the amount of the British tax. British subjects residing abroad are now entitled to the same fraction of the deductions and allowances as their incomes subject to British income tax are of their total incomes.

Besides the changes just mentioned, minor changes were made in the allowance for insurance premiums; and income from scholarships at educational institutions was made wholly exempt from tax. The effect of all the amendments will be to reduce the number of income taxpayers from 3,700,000 to 2,450,000, and to cut down the revenue by a small amount. Inasmuch as the greatest relief is granted to married couples, especially those with children, and as the rates in general are much more regular in their increase, this part of the Finance Act has met with almost universal approval. It will be observed that even now the British tax is much heavier on small incomes and lighter on large ones than the American tax is.

Other features of the Finance Act that were not so popular were the temporary retention of the excess profits duty at a higher rate (60 per cent) and the introduction of a new and presumably permanent corporation profits tax. The high rate

of the excess profits duty is, however, offset by increased allowances on account of additions to capital and on account of the personal activities of stockholders and directors, and also by increased exemptions for small concerns. A small deduction is now permitted for charitable contributions.

The corporation profits tax is imposed on concerns with limited liability engaging in trade or business, including investment. It is equal to 5 per cent of the profits or income in excess of £500, but not over 10 per cent of the amount left after paying interest and fixed dividends on bonds and preferred shares. It is concurrent with, not additional to, the excess profits duty, and is expected to yield £50,000,000 annually after the later is repealed. This tax is regarded as a compensation for the super-tax on partnerships and individuals.

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